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Slovak Foreign Ministry Statement on SFRY

AU0907103391 Bratislava NARODNA OBRODA
in Slovak 6 Jul 91 p 2

[CTK "excerpt" of statement issued by Slovak Ministry of International Relations; date not given: "An Extremely Dangerous Step; From a Statement by the Slovak Republic Ministry of International Relations"]

[Text] Bratislava (CTK)—The Slovak Republic Ministry of International Relations proceeds, in harmony with the UN Charter and the CSCE final documents, from full respect for every nation's right to self-determination. It expresses the conviction that any use of armed force against one's own population does not solve the situation but represents an extremely dangerous step that may have far-reaching consequences.

A new setup in Europe should never again be the consequence of wars but, rather, the result of a just and conflict-free settlement in line with the principles of international law. It is in such a course of action that we see a hope for Europe and for those of its nations that have not yet set the seal on their statehood.

Dienstbier's Foreign Policy Questioned

AU0507115391 Bratislava SLOVENSKY DENNIK
in Slovak 4 Jul 91 p 2

["Summary" of a declaration issued by several Slovak political groups; date not given: "Will Dienstbier Stay in His Position?"]

[Text] According to the declaration of the leadership of the SKC [Slovak Coordination Committee] of the Party of National Prosperity and the Committee of the Slovak Organization for the Protection of Human and National Rights, CSFR Foreign Minister Jiri Dienstbier, because of his inherited handicap, is not capable of abandoning the principle of democratic centralism in his work. He loses his capability of and competence for objective evaluation of the processes taking place in Central Europe. Because of his permanent one-sided inclination toward the overseas state administration, he provides no guarantee for an objective formation and interpretation of Czechoslovak foreign policy. He showed his incompetence and unwillingness in connection with the evaluation of the situation in Yugoslavia. By this, he has demonstrated how the UN Charter principle—the right of nations to self-determination—is absolutely alien to him. It has become obvious from this assessment of J. Dienstbier's activity that his continuation in the position of CSFR foreign minister is untenable. This is why we call on the Federal Assembly deputies—if they agree with this assessment—to declare a vote of no-confidence in Minister Dienstbier.

Meciar Compares Slovenia to Slovakia

AU0907212091 Bratislava NARODNA OBRODA
in Slovak 4 Jul 91 p 2

[Report by Jan Fuelle: "Will the Deputies Praise Meciar?"]

[Excerpt] [passage omitted] In connection with the situation in Slovenia, Vladimir Meciar said that they have to solve many problems which must be solved in Slovakia, too. Journalists were also informed about the fact that a special interest group of Slovak Republic deputies, irrespective of political affiliation, has been established within the CSFR Federal Assembly that should guarantee that no laws harming Slovakia's interests will be passed in the Chamber of Nations. The Public Against Violence movement deputies are not members of the group. The For a Democratic Slovakia Movement [HZDS] chairman further said that the movement would like to establish in the future an "independent daily that would be subsidized by the HZDS." Vladimir Meciar also gave his opinion on the investigation into his own case being carried out by the Slovak National Council Security and Defense Committee. He said that if its members had even just a tiny amount of conscience they would praise him. "I am going to follow with interest what else they will concoct," said Vladimir Meciar in conclusion.

Kucerak on Independent Slovakia, Market Economy

LD0807211391 Prague CTK in English 1251 GMT
8 Jul 91

[Text] Bratislava July 8 (CTK)—Public Against Violence [VPN] Slovak Council Chairman Jozef Kucerak said fears that the current transformation to a market economy would be halted in Slovakia if the republic gained independence are well founded.

He told a news conference here today that some groups in Slovakia hold deep-rooted ideas of "socialism with a human face" [the 1968 attempt at reforming Communism]. These ideas are shared by many members of Slovak ex-premier Vladimir Meciar's Movement for a Democratic Slovakia [HZDS], Kucerak stressed.

In reference to the Yugoslav crisis, the VPN officials said that although the use of tanks and soldiers is obviously excluded in Czechoslovakia, the situation in Yugoslavia is a grave warning.

Czech Response to Slovak Demand for State Treaty

91CH0657A Prague LIDOVE NOVINY in Czech
11 Jun 91 p 10

[Article by Jiri Broumovsky: "The Pillars Must Remain"]

[Text] Andrej Hlinka's statement in 1918 about the failed marriage between the Slovaks and the Hungarians

was paraphrased by Slovak separatists to apply to the relationship between the Slovaks and the Czechs. We all know that it has become truly neurotic lately; goodwill would be needed on both sides to remove the neuroticism, but it is usually lacking. I sincerely hope that this article will spur the nationalists on both sides to thought. I will be very happy if it does so.

Let us first deal with our own Czech ranks: I am sure that the majority of Czechs are not suffering from a fundamentally anti-Slovak complex. However, we do not realize the essence of the Slovaks' longing for their own identity, we trivialize it with the incensed condemnation that "the Slovaks are always demanding something," especially at the most inconvenient time (and that is always). We are even unaware of the fact that the nationally (autonomously through to separatistically) oriented current of Slovak politics did not simply fall from the clear blue sky at the end of the 1930's, but that it is basically as old as the current of Czecho-Slovak reciprocity and ultimately reaches back to the end of the nineteenth century. If we extend it by Stur's language separation, we get back as far as the middle of the nineteenth century. It is simply a part of the reality of our relations. (A totally different question—which is a topical subject for Slovak historiography—is whether plainly antidemocratic, almost fascistic trends—including anti-Semitism—are inherent in the separatist current, or whether it "merely" uses them for its own ends. Of course, there is not much difference from the moral point of view.)

We do not realize that we placed more than one weapon into the hands of this current through our own intolerance and thus involuntarily helped to make it more radical: We did not fulfill the Pittsburgh Agreements on Slovak autonomy (though their wording was very vague), we persecuted Andrej Hlinka after the Versailles Peace Conference where he wanted to raise the Slovaks' claim for autonomy, we permitted the harsh government of unitarian-minded V. Srobar in Slovakia in the 1920's, etc., etc. I believe that, on our part, there was a prevailing consciousness for a long time that Slovakia was peripherally attached to the historical countries; due to this fact, as well as the resulting investments in Slovakia—the establishment of state administration, education, etc.—obligatory gratitude was expected, combined with the self-evident subordination of Slovakia to Czechoslovak (Czech) interests.

Somewhere around this point, the conflict between Czech paternalism and the Slovaks' feeling that their national identity has not been adequately satisfied begins. If this feeling continues, the Slovak's will strive to get exactly what the Czechs get. Even in areas where the Czechs are indifferent as to whether it is theirs alone or owned jointly, or where, to the contrary, they are convinced that it should be joint. It was probably here, on the borderline between the existence and the nonexistence of a joint state that the somewhat strange pleonasm

"genuine federation" was born. I believe that President Havel understands this with his sensitive—and apparently not only his statesmanlike—perception, and perhaps the Czech Prime Minister, Pithart, does as well, but in his case, the Czechs considered it to be a sign of yielding to the Slovak government.

So what can we Czechs do if we want to live together in one state? Let us not reject the desire of the Slovak nation for its own identity unless it jeopardizes a joint state, let us offer them a true federation, a federation even in our minds: let us not say "Czech" when we mean "Czechoslovak," let us not argue about historical statehood against the Slovak lack of statehood in the past, let us get rid of the paternalism, and let us not object to the differences between our nations, because they are the very reason for the Slovak's yearning for self-realization. Let us refrain from malice in the press, and let us concentrate on the factual basis of the criticized relations—quite simply, let us demonstrate good will.

And what should we get in return?

Well, brother Slovaks (with regret I realize that this form of address is disappearing from the Czech vocabulary), first:

If the reality of our relations includes the longing for Slovak self-realization in its broadest sense, then the reality of a federation must include the fulfillment of those few fundamental conditions, repeated ad nauseam, without which no state, not even a federation, can exist—one economic system, one currency, one army, one foreign policy. The feeling that there is a lack of national identity cannot be cured by dividing up the pillars on which the state structure stands. If this were to happen, there would be only one remedy, however painful it might be for many citizens of both states: separation into two state units, because this would still be a more reasonable alternative than the alternative of a state within a state, which is a term that has always been a synonym for any arrangement that does not work.

However, above all, the national lack-of-identity syndrome cannot be cured in a programmed way—through centralized attempts to increase the awareness of the world about the existence of Slovakia, for which only one ministry has been set up. Furthermore, this ministry is absurdly returning the status to the days of the mandates during the 1950's asymmetrical model of executive power. Of course, this was primarily Prime Minister Meciar's platform, and through his travels abroad he created a permanent precedent for weakening one of those joint pillars of the state—a unified foreign policy.

Now, brother Slovaks, if we offer you maximum understanding—as I have suggested—then, secondly, we will have to request something that is extremely elementary—an honest game. Because we, too, would like to know where we stand. Because no other topic has been talked about with more dishonesty on the part of the Slovaks than the topic of remaining in a joint state. I consider the well-known alternative, frequently repeated

by Jan Carnogursky, to be extremely cynical: "For the time being, yes; but not in respect to a unified Europe, because the Slovak Republic will enter that as a "legal entity." That is why even the proposal for a state treaty between the two republics seems suspect to us, since it really represents one of the possibilities to prepare this road beforehand.

We, too, want to know where we stand. Because all negotiations on jurisdiction and authority have so far taken place under Slovak pressure with hints at a break-up of the state if the demands are not met. I repeat: let us tolerantly admit that positive demands have always been of vital importance to the Slovaks; but even so, they cannot be extorted through political blackmail but must be attained through the knowledge that there is a boundary somewhere, which is acceptable for the functioning of the federation and should not be crossed. That is why I consider the most rational solution to all mutual vital questions—which certainly include the creation of institutions—to be a referendum, with all the inherent dangers of correctly phrased questions, so that the Slovak political representatives can ascertain whether they are representing their own—and maybe Bratislava's—opinions, or those of all Slovakia.

Despite all the doubts I have mentioned, I believe that we are living in a period where many problems are surfacing because the specter of freedom opened all the closed flood-gates and enabled everyone to argue with

everyone else. Therefore I see nothing catastrophic in Czechs arguing with Slovaks. If we overcome this period of coming to agreements (and even of arguing) about the state legislative organization, I believe that week by week, month by month, and year by year our conflicts will seem increasingly insignificant, until one day we will not even be aware of the fact that we are living in a federation, just as, for instance, the Swiss are not aware of the fact that they are living in a confederation.

Census Shows Half-Million Unoccupied Apartments

*AU0907071591 Bratislava NARODNA OBRODA
in Slovak 4 Jul 91 p 2*

[CTK report: "Figures Speak About Us; Preliminary Results of the Census"]

[Excerpts] [passage omitted] There are 5,320,095 apartments in the CSFR, 44 percent of them in private houses. Apart from permanently occupied apartments, there are also 525,320 apartments that are not permanently occupied. [passage omitted]

In addition, there are 280,194 weekend homes and cottages. A total of 75.3 percent of all apartments are centrally heated; 90.6 percent of apartments have a bathroom or a shower cubicle.

Trials Test the Limits of Press Freedom

91CH0668A Budapest HETI VILAGGAZDASAG
in Hungarian 1 Jun 91 pp 77-78

[Article by Endre Babus: "Press Scandals: Has America Arrived?"—first paragraph is HETI VILAGGAZDASAG introduction]

[Text] The authors and editors of at least five national periodicals are either defendants in criminal proceedings or are being investigated by the public prosecutor's office. The avant garde UJ HOLGYFUTAR, and the extreme-right SZENT KORONA and HUNNIA, among others, have been assigned the role of clarifying the limits of press freedom in Hungary.

Since the beginning of last week, investigators of the public prosecutor's office have been sniffing around UJ HOLGYFUTAR. In the editorial office of BESZELO, the prosecution is seeking persistently the real identity of an author writing under a pen name. Criminal proceedings have been instituted against HUNNIA on charges of vilifying the state, while SZENT KORONA's scandalous first trial is already over. NEPSZAVA's trial is nearing its end. The day when some criminal court sentences the first journalist in the name of the Republic of Hungary appears to be approaching inexorably. The honorarium for an article (one that reveals a state secret, for instance) could be as high as eight years in prison, unless....

Unless the legal argument is upheld that any criminal proceeding instituted in Hungary because of a news report, or an article or even a letter from a reader, is unconstitutional to begin with. This argument was first entered before the Budapest Court by the defense attorney for the editors of SZENT KORONA. Since then his opinion has been shared also by several legal experts who reject most definitely the mentality of both SZENT KORONA and HUNNIA.

What is this all about? According to Section 61 of our 1989 Constitution, the Republic of Hungary guarantees and safeguards freedom of the press and freedom of speech. Furthermore, it follows from Section 8 of the Constitution that these rights, like other fundamental freedoms, cannot be curtailed substantively even by statute. From all this it logically follows, several experts claim, that since 23 October 1989 it is prohibited to proceed against newspapers on the basis of the Criminal Code's dozen or so sections—these range from defamation of character to libel, and from violation of a state secret to insulting an official—that could be leveled against the media.

For long decades, exactly the opposite logic prevailed in Hungary. The prison sentence for libel committed in a newspaper with wide circulation, for example, could be twice longer (two years) than in the case of other libel. The "wide-publicity multiplier" could even be as high as a factor of three for violating state secrets. After such antecedents, the possible final pullout of criminal law from the realm of the press could be causing serious

misgivings, and probably fears as well. But if Hungary decides to embark on such a step, there would be no danger of its being unprecedented.

Regarding the legal position of the press, experts say, the Western democracies follow basically two models. In a good many countries on the European continent, in France, Germany, and Italy, for instance, the parliaments have the authority to restrict freedom of the press, and therefore journalists may occasionally come into conflict with the criminal justice system. But the United States Constitution expressly provides since 1791 that not even Congress may limit freedom of speech.

The regulation of freedom of the press in Hungary momentarily seems to conform to the American model's logic. Of course, the question remains whether also the Constitutional Court's interpretation will agree with this, because the defense attorney in the SZENT KORONA case intends to petition the court for a ruling.

Sooner or later, however, the parliament too will inevitably have to confront the question of what role the republic intends the press to have. It will be necessary to decide whether the creation of the free press's present scope, in which, incidentally, also the present prime minister actively participated at the time of the party-state's liquidation was merely an accident in the course of drafting legislation; or was there a deliberate political concept behind the decision. The position of the ruling parties seems fairly straightforward. Simultaneously with introducing a new press bill (not later than in a few months from now, according to some reports), the cabinet will want the parliament to enact also a far-reaching constitutional amendment, one that will clearly permit employing the entire arsenal of criminal law against official and unofficial reporters and writers of articles published in the press. It seems that the government intends to put an end to the press's permanent role as an important political and opinionmaking factor, occasionally referred to—metaphorically—as the fourth branch of government.

Investigations, Proceedings Against National Periodicals

Title (Circulation)	Charge, Basis of Investigation (Maximum Sentence Possible)	Status of Case
NEPSZAVA (180,000)	Suspected insult to an official (two years in prison)	Reporter acquitted by lower court; prosecutor appealed
BESZELO (22,000)	Suspected insult to an official (two years in prison)	Suspect's questioning delayed, editorial office unwilling to reveal identity of author writing under a pen name
HUNNIA (4,000)	Suspected agitation, propaganda against the state (three years in prison)	Investigation continuing

**Investigations, Proceedings Against National Periodicals
(Continued)**

SZENT KORONA (4,000)	Suspected agitation, propaganda against the state (three years in prison)	Trial of three editors before lower court adjourned, pending outcome of objection challenging court's impartiality
UJ HOLGYFUTAR (1,500)	Alleged disrespect for the crown	Evidence being gath- ered

The opposition's thinking on what role the mass media should have is not so clear. When they were still in power, for instance, today's Socialists prepared press bills hauntingly similar to the Antall cabinet's bill. FIDESZ [Association of Democratic Youth] appears to have elaborated its standpoint only partially, although the outspokenness of MAGYAR NARANCS can be perceived also as a kind of continuous espousal of a liberal press that respects no taboos. Among the experts of the SZDSZ [Alliance of Free Democrats] there are several advocates of the American model; consequently, they reject from the outset the very idea of drafting a separate press bill, and probably also the plan to restrict freedom of speech by amending the Constitution. But it is difficult to reconcile with this principled standpoint the fact that specifically Gyorgy Gado, an SZDSZ deputy, has recently been urging action by the public prosecutor's office against the extreme-right periodicals SZENT KORONA and HUNNIA.

It will be worthwhile to examine at least in broad outlines the consequences of adopting the continental or the American model in Hungary. The decision could determine for decades the position of the media; it could enable or restrict the newspapers, radio and television stations in their role as "democracy's watchdogs."

Adoption of the European regulations would fit Hungarian legal traditions undoubtedly better. It would also give the government effective sanctions against the authors of articles offending a person's dignity or, say, against yellow journalists peddling their influence. But as the SZENT KORONA case has already demonstrated, the possibility of a criminal trial can shroud in the romantic cloak of persecution also papers that by no means always deserve such sympathy. And, of course, it also gives the defendants an opportunity to play the role of martyrs.

On the other hand, possible adaptation of press regulations of the American type could achieve the triggering of society's self-defense mechanisms, instead of expecting official intervention. In this case the press could provide unrestricted scope for "talking out" irrational views before they perhaps gel into the mythology of a mass movement. At the same time, the experts deem it important to emphasize that the American legal system does not tolerate instigation to direct violence, either; and for moral injury it does award the injured

parties hefty damages in civil lawsuits against "scribblers" and the liable media, although it does not jail them.

**Wide Controversy Over Police Chief
Appointments**

*91CH0667A Budapest HETI VILAGGAZDASAG
in Hungarian 8 Jun 91 pp 77-78*

[Unattributed article: "Police Chief Appointments"—first paragraph is HETI VILAGGAZDASAG introduction]

[Text] Last fall, the parliament passed into law that the municipalities' concurrence is required for the appointment of their police chiefs. But now it turns out that this right to veto is illusory in many instances and cannot be exercised in practice.

A few months ago the county councils had to accept the unpalatable fact that they are unable to prevent the appointment of [county] police chiefs they did not like. Namely, the law is quite unambiguous. County councils merely have the right to be consulted, and only the municipalities have the right to concur with the appointment of their municipal or district police chiefs.

But now it appears that the municipalities are not much better off than the counties. Admittedly, Law No. LXXXII/1990 gives the municipalities the right to concur, but that does not mean at all that a city's municipal council can prevent with absolute certainty someone's appointment. Usually the right to concur is exercised by the municipal council. But the section of the law that guarantees this right also has a paragraph which states that when a police department's territory covers several municipalities, it is the mayors of the municipalities concerned who decide, by a simple majority, whether to concur with the appointment.

This provision, entirely logical at first glance, is the cause of the present controversy. Perhaps it was not quite clear to the legislators last year, but the territory of few police departments, except those of the Budapest districts, covers only one municipality. In other words, mostly the "councils of mayors" decides in the provinces, which means that the post of police chief can be filled even though the municipal council on whose territory the police department is headquartered objects. We have been unable to find out how many such police departments there actually are. Laszlo Korinek, the Interior Ministry's deputy state secretary for law and order, denied that the Budapest districts were the only municipalities whose administrative boundaries were also the boundaries of their police departments, but he did not give any exact figures.

Recently, the Pecs Municipal Council protested because, as a result of the aforementioned provision, it got a police chief it had not wanted. Realizing that further opposition would be futile, Debrecen tossed in the towel in the second round of voting. After voting, the Salgotarjan Municipal Council petitioned the Constitutional Court to declare that the mentioned provision was in conflict with the Law on Local Government. In response to our question, Ferenc Tolmanci, the SZDSZ [Alliance

of Free Democrats] mayor of Salgotarjan, said: "The municipal council rejected for political reasons the Nograd County police chief's nominee for the post of [district] police chief." He added that on this question the SZDSZ, FIDESZ [Association of Democratic Youth], and MDF [Hungarian Democratic Forum] factions within his municipal council had been in complete agreement. However, the territory of the police department headquartered in Salgotarjan covers 31 municipalities with a combined population of about 110,000, 50,000 of whom are Salgotarjan residents. With 17 of the mayors attending, the "council of mayors" voted 16 to one to concur with the county police chief's nominee for the post of chief of the police department headquartered in Salgotarjan.

The only vote against was by the mayor of the county seat. "What we want does not matter at all," complained Ferenc Tolmasci in conjunction with the fact that the unwanted police chief, like his colleague in Pecs, has already occupied his post in the meantime. The county seat's municipal leaders also resent that their mayor's vote is worth only as much as the vote of his colleague from, say, Cered with its 800 residents.

Salgotarjan's municipal councilmen contend that establishment of the "council of mayors" is in conflict with the Law on Local Government. They cite the law's provision that "the municipal council may not delegate authority to express its opinion in matters on which the law specifies that the local government's standpoint must be obtained." Yet the law regulating the conditions of employment for police officers, including their appointment, certainly infringes on the local government's authority, they argue. Furthermore, the law establishing the "council of mayors" was enacted by a simple majority, whereas the Law on Local Government had required a two-thirds majority for passage and therefore could not have been amended by the aforementioned law. The councilmen expect the Constitutional Court to address also the question of the validity of a police chief's appointment in cases when the preparations for the appointment were flawed.

This case will foreseeably be a protracted one. The Constitutional Court has not yet confirmed receipt of the Salgotarjan Municipal Council's petition, and officially the Interior Ministry knows nothing about it. In response to our question, Laszlo Korinek said that so far, neither he nor his staff had seen the petition. Another indication of a foreseeably lengthy wrangle is that last week, during the parliamentary debate on the so-called competence bill, it turned out that the government would have liked the law to specify that the interior minister directs—together with such odds and ends as flood control, the registration of births, marriages and deaths, and other similar matters—also the police (thereby "demoting" the national police chief), and to include a statement to the effect that the local governments' say in the appointment of police chiefs was regulated by separate statute. According to an amendment introduced by Ferenc Koszeg (SZDSZ), the national police chief would have

retained professional supervision and control of the police. The amendment also seized this opportunity to regulate uniformly the local governments' say in appointing police chiefs, giving every local government a right to concur. The government's proposal did not get the two-thirds majority required for passage, and Ferenc Koszeg's amendment failed to muster even a simple majority. In the matter of appointments, then, everything will remain the same as before for the time being, or at least until the Constitutional Court hands down its decision.

But the government, it appears, is not wasting its time just waiting. Immediately after the parliamentary defeat of the government's proposal it was announced that, as of 1 July, matters pertaining to law and order would be under the interior minister's direct professional supervision and control. In response to our question, Imre Verebelyi, the permanent state secretary, said: "This is an internal reorganization that does not increase the minister's direct authority over the police." Furthermore, it was not related to the government's failure to obtain the required two-thirds majority for its proposal in the debate on the competence bill.

Preparations for the reorganization had been in progress for months, he added, and the final decision was to abolish the post of deputy state secretary for law and order. As of the first of next month, Laszlo Korinek will be the chief of the newly established Law and Order Office that will function under the minister's direct supervision, the Office for Refugee Affairs will be under the political state secretary, but will remain within the Interior Ministry's structure. The permanent state secretary will retain responsibility for some of the matters pertaining to these offices (personnel, legislative matters and finances, for instance). "But the minister would like to be kept better informed than he has been in the past," said Imre Verebelyi by way of explaining the reorganization.

Interior Minister on Secret Service, Authority

91CH0672A Budapest VILAG in Hungarian 12 Jun 91 pp 8-11

[Interview with Interior Minister Peter Boross by Bela Kerekes; place and date not given: "Bela Kerekes' Interview With Peter Boross"—first paragraph is VILAG introduction]

[Text] They say that he is the strong man. His eminence in the gray cloak. The one who does not present himself in public unnecessarily because he knows he does not need to. Moreover, that's not his job. He is needed by the prime minister. He is not a deputy. He is second in line. He is the interior minister of the Hungarian Republic.

[Kerekes] Pardon me, is this the right chair?

[Boross] Of course, go ahead if you feel comfortable there.

[Kerekes] Do you feel all right in your armchair?

[Boross] Me...? Of course I do. Anyone who agrees to serve in public office these days cannot permit himself the luxury of being indisposed.

[Kerekes] Are you capable of doing so?

[Boross] Yes. I clarify the various matters in my mind before making a decision and when I'm finished with that I no longer entertain any dilemmas. I do not like hesitation, the constant rethinking and reconsideration of matters. Although this creates the illusion of thoroughness, it actually is a typical sign of the inability to decide.

[Kerekes] The one who makes quick decisions may also err.

[Boross] I distinguish between my errors on the basis of matters that stir my soul on the one hand, and others which are not sufficiently grave for me to regret the decision I made.

[Kerekes] What kinds of errors did you make which stirred your soul?

[Boross] For example, when I granted a benefit to a person with whom I had personal connections, when I was overly fair with someone who did not deserve such treatment, it could be that I erred a lot, but it is precisely because I am able to close down cases in my mind that I do not continue to worry. Things that should have been done otherwise do not enter my mind. But a situation indeed occurred when I incorrectly cited a legal provision to a journalist—exactly the opposite of what I should have cited. This kind of thing aggravates me because I hate to err this way. But even in such cases I am able to conclude the matter, I do not carry it along with me, I do not fret such things.

[Kerekes] These kinds of people are of the type which do not search their souls.

[Boross] I would not dare to say that either, because in countless cases I do have problems with my conscience. This is the way I reacted to that certain III/III legislative proposal, a matter that affected the future of human beings. But once I made a decision, as I did indeed, I no longer continued to search my soul. I have an ability not to suffer because of the consequences.

[Kerekes] Now that you have mentioned the legislative proposal, when and to whom did this idea first occur?

[Boross] I said several times last year that I would not want to be involved in such matters. I said that we should take a look at this matter once our souls have acquiesced, years from now, when there is not so much emotion. But action had to be taken in response to the Demszky-Hack legislative proposal which the House placed on its agenda. I waited for long, but by now a less adverse proposal than the one I just mentioned has been completed. During the past decades many people have

fallen on the inglorious battlefield of politics for a number of reasons, nevertheless I would distinguish between motivations. A person could have become an agent for money, possibly for a position, he could have done so under cruel duress; one should not view these matters as having been prompted by identical motivations. For this reason, the cabinet proposal narrowed down the criteria as compared to the contents of the Alliance of Free Democrats proposal. And even within this group only those names must be transferred which are backed by a file.

[Kerekes] Many question the authenticity of the files.

[Boross] There are fables that they removed or added some files. For this reason, we named four high public authorities to judge under a very liberal procedure if it can be unequivocally proven that a person did or did not work for domestic counterintelligence. There is no better way in which this thing can be accomplished. The worst thing that could happen would be this: Once the list has been prepared it would be reviewed by many. They will remember 20 of the best known names, they may divulge one or two names.... Some stories hold that the people from III/III continue to be active even today, for example at newspapers which are not at all friendly to the cabinet. All I can say in response to these fables is that we should not bother with these people, except for the leadership positions they hold. Christ's virtue of forgiveness must prevail, otherwise we will embark on a terrible path.

[Kerekes] Was it at all worthwhile to start dealing with this matter?

[Boross] Perhaps not. We would not have produced a proposal had the parliament decided last year not to place the opposition representatives' proposal on the agenda. But of course, who would cast a negative vote relative to a proposal like this one? Who would object to a matter like this? They would claim later that the one who opposed the legislative proposal did so because he himself was involved.... The truth is that I also wanted to be a bit shrewd. We have heard of such legislation in Prague, Berlin, as well as in Sofia. I would have liked to sit and wait until others complete this journey laden with fiascos. Waiting to see what happens [in the other countries] would have served well even as a basis of reference, because there was no logic in this, there could be no logic, one can only make a bad or a worse decision. We should not have rushed into this.

[Kerekes] In any event, we now have a legislative proposal. Are you not concerned that the country is beginning to be scared? And not only those involved in this matter are scared.

[Boross] Yes, I am concerned. But I would have been even more concerned had the SZDSZ proposal been placed on the parliamentary agenda.

[Kerekes] The time has come to change the subject, therefore, I will ask why you did not change your home telephone number?

[Boross] Because I felt that such a change would create multiple annoyances in our family life. Just think of the number of old ties that would have been severed. I prefer to tolerate hearing periodically a voice on the other end of the line which one does not like to hear.

[Kerekes] Have you been threatened?

[Boross] Yes.

[Kerekes] How frequently?

[Boross] Less and less frequently. Mostly at the time when I reorganized the secret service.

[Kerekes] Earlier you served as the head of the South-Pest Hospitality Enterprise. Now you are the head of the Interior Ministry. At that time you had an official car, even if it was only a Zsiguli, at that time you had a chauffeur, even if you did not have a personal bodyguard, at that time you were a lovingly respected boss, just as you are now. To what extent do you sense a real difference between power and power?

[Boross] The dimensions are different, I know that the position comes with power. I am aware that my decisions may affect the entire country. This responsibility does not depress me, even though I am not particularly ecstatic either.

[Kerekes] Last spring you were hoeing your vineyard when the prime minister called and wanted to see you. How was he able to persuade you to agree to supervise the secret services?

[Boross] If I wanted to be a bit pathetic I would say that he made reference to the things both he and I dreamed about. From my standpoint the decision revolved around my conscience. I had no right to refuse to act as long as we agreed at the time we daydreamed. I would have regarded agreeing without helping as conduct devoid of ethics.

[Kerekes] I believe that a decision like this constitutes not merely a moral issue. One cannot avoid asking the question of whether the person involved is suited for the job. After all, at this time you were not invited to be the top man in a hotel chain, at which point you could say to yourself: well, I know that business, I also like to do that kind of thing, so I will try.... Did you meditate a lot before you gave a response?

[Boross] I did not. I do not have the kinds of complexes in which I could be rendered unsure of myself to ask whether I am fit or unfit for that job. Even at that point the only thing I pondered was whether there was one among the choices that were available to the prime minister, if there were people to choose from at all, who was familiar with this field. There was no one. And I had

to take the job if that was the case. Whenever I receive an assignment I feel that I have sufficient strength to perform that assignment.

[Kerekes] How did you learn whom you must get rid of at the time you were assigned to supervise the secret services?

[Boross] Certain personal consequences had to be drawn in order to provide this country a secret service that is capable of functioning and which works for Hungary. I feel that I implemented well what I was supposed to do. And perhaps they do not foster bad memories of me.

[Kerekes] Certainly not the ones who stayed there, but how about the ones who had to leave? How did you assess the terrain? From where did you receive information? You did not know a single person there.

[Boross] One has to walk around among the people, one must converse with them, watch their reactions, in many instances even their eyes the way to look.... And of course one also has to check the objective facts.

[Kerekes] For example?

[Boross] For example, the kind of relationship a person had with someone. The KGB had an office at the Hungarian secret services all along until 1989. I believe that confidence must be withdrawn from persons who for years kept in touch with a foreign secret service.

[Kerekes] Do you have in mind those who unconditionally cooperated with the KGB?

[Boross] I would prefer to say that persons who were compromised as a result of their situations to an extent that by virtue of their presence subordinate staff had to live in constant fear about when that certain knife was going to come.... One cannot work under conditions of insecurity. This is why I had to make a quick decision.

[Kerekes] According to what you just said, did certain persons capable of changing over [to our side] remain? Were there such people?

[Boross] Of course there were. Many. Who would have thought in those days about rebellious comments, measured at the contemporary scale, made at the secret services' party members' meeting? But why shouldn't such a thing happen, they are not robots either. Many of them graduated at the IMO [expansion unknown] in Moscow. What does one bring along from the Soviet Union? Could you imagine a situation in the late 1970's in which they could have instilled teachings about the superiority of the system in anyone? Who would have believed those things? That blind faith has not been alive in this country for a long time—why should it have lived on at the secret services? I have seen documents, I have spoken with people. I have appraised people on the basis of whether they satisfied the requirements posed by the new type of relations, primarily Western relations.

[Kerekes] But on what basis did you trust those from whom you requested information about the staff?

[Boross] One can never rule out the possibility of an error. Life experience, knowing people, half of which consists of impressions, the other half of convictions—this is how one formulates an opinion, with a definite margin of error of course.

[Kerekes] Was it a basic principle to preferably let go more people rather than to leave even one within the secret services who should not have stayed there? Did you work with a margin of safety?

[Boross] To the end I have been preoccupied with the thought that the persons who must be let go are the ones whose departure permits the majority of the staff to feel that by virtue of these departures the process of selection has come to an end once and for all.

[Kerekes] Perhaps you will believe this: At the time they publicized your curriculum vitae many wondered how a restaurant manager could become the head of the secret services. I understand that this change in career has some antecedents. You not only completed the military school at Koszeg and at Pecs, but you also liked to be in those schools.

[Boross] My father was very strict, thus I was used to tough discipline. In our family it was virtually self evident that the oldest son—that was me in our case—had to become a soldier. At the age of ten I transferred from an elementary school that was not divided into classes to the Koszeg military school. As I said, I was not unaccustomed to drills just as I was not unaccustomed to communal life—I came from a village after all. I knew the various grasses, the trees, the forest, the starry sky, on the other hand, I did not see a streetcar before I was 10. In general, it was odd to see so many people on the street, as if it had been Sunday. But I became accustomed to the new order very soon; to the new order, which attributed much to honesty for example, and to respectful conduct. At the Pecs cadet school I received civilian education in addition to military training, a kind of education which was saturated by the myth of the homeland. As far back as I am able to remember things, they pumped into everyone's head the idea that Greater Hungary must be restored. Only one aspect of this remains in me: a strong emotional tie to the homeland. The words "Hungarian" and "Hungary" do not leave me emotionally untouched. I am unable to become a fully objective citizen of the world.

[Kerekes] You completed law school in the early 1950's. You needed more than a little bit of luck with a father who had been granted the "Vitez" title [recognition of courage].

[Boross] I began my university studies in 1947. At that time we still knew who was who among us, therefore we tried to help each other if one of us got into trouble. If my recollection is correct, it happened in 1950 that they wanted to "do away" with one of our fellow students

whose father was a priest and whose grandfather was a bishop, thus he was the darkest of cadres. We persuaded him to comment on and to strongly condemn right wing social democracy. We made some terrible noise claiming that this guy was the real guy, because he appropriately showed us the true path....

[Kerekes] Did you have an adventure like this?

[Boross] My situation was more simple. Partly because of some misunderstanding I told them at the beginning that my father was a government commissioner responsible for the planting of trees. In those enthusiastic days when movements flourished, that statement was worth a letter of recommendation. This is a possible reason for my ability to get away.

[Kerekes] Where were you in 1956?

[Boross] After completing the university I became an employee of the Capital City Council. I was elected there as a member of the Revolutionary Committee. All revolutions are naive, and Hungarian revolutions are particularly naive. Head on against the wall, go ahead with some optimism we forced upon ourselves. October 1956 was ecstasy itself. The ecstasy of freedom. I was removed of course from the Capital City Council after the revolution failed. I served time at Kistarcsa. Then I became an unskilled laborer in a small cooperative, in a synthetic injection molding facility. Later I became a picture salesman, until finally I received a friendly advice to go to the hospitality industry; that was the place where everyone escaped. And indeed, a "magnificent" staff composed of transportation workers and bartenders gathered. People were not being observed so intensively there, they could not cause that much harm to the working class. As my name suggests, I became a tapster at the Szikla Restaurant at the Zoo. Subsequently I managed a buffet at the Szechenyi Swimming pool, and based on the recommendation of a friend I was transferred to Kobanya as an assistant manager. A few years later they "took me in" to headquarters as a group manager. Having gone up the career ladder I was appointed director of the enterprise in 1971.

[Kerekes] In 1988 you established a Country Building Foundation. Jozsef Antall and Arpad Goncz among others also served on the board of that foundation.

[Boross] Karoly Kos was my childhood idol. Not only because he was a great Hungarian and a preacher, but also because he was an active man. His novel "The Country Builder" was one of my favorite readings when I was a young. One could already feel the winds of new times in the middle 1980's, thus I decided to try to erect a monument for Kos on Wekerle Square which was part of the enterprise's territory. Although initially I ran into great resistance, in the end I accomplished what I wanted to. This is an interesting date. The police dispersed the gathering on 15 March 1987, but in November they no longer broke up the statue's dedication ceremony which was worth a demonstration. The attending public did magic; by singing the National Anthem and the Second

Hungarian National Anthem they turned this event into an actual national holiday. I established the Country Builder Foundation after this dedication ceremony, expressly for the support of noble, national goals. Just think of the effect a joke would have had at a board meeting: you will become the prime minister, and you will be the president of the republic....

[Kerekes] You have been friends with Jozsef Antall for decades. How has your relationship been since he became the first man of the country?

[Boross] Very good. It has changed insofar as presently, I am the minister of the prime minister. I fully accept all the principles and values which characterize Jozsef Antall as prime minister.

[Kerekes] Below the head of the cabinet you are first among equals. To what extent could you substitute for him?

[Boross] Jozsef Antall was born as a talented person, and the nation is very lucky to have him.

[Kerekes] Is he irreplaceable?

[Boross] At the moment no one, including opposition politicians, comes even close to his capabilities.

[Kerekes] What would happen if he were to be incapacitated even temporarily?

[Boross] Whatever he provided strength to would become weaker.

[Kerekes] This is a nice sentence.... In any event, you are his deputy. The fact that the prime minister appointed his personal friends to key positions, and not party people is indeed remarkable.

[Boross] This falsehood has become known to an extent that it is boring. First: Jozsef Antall did not personally know before an overwhelming majority of the cabinet members. Second: quite obviously, the head of the cabinet will select his ministers on the basis of recognizing intellectual abilities to perform the tasks, and a willingness to identify with the management concepts of the cabinet.

[Kerekes] "The cabinet shall direct the police through the Minister of the Interior." I am quoting from the legislative proposal concerning the police, which is now being prepared. This one sentence serves as proof to many that the cabinet endeavors to centralize authority.

[Boross] Let us add to the sentence that at present the Minister of the Interior directs the police on the basis of legal provisions, through legal means. In order to permit an interior minister to have full responsibility, he also should have authority to operate and direct. I do not feel that it would be appropriate to restrict this management activity by way of legal provisions. Even though I am not overly disturbed by limitations, I feel that if I were to respond to a parliamentary interpellation seeking a

police station somewhere, I would have to respond by saying that police stations could not be established by law, and I have no way of acting unless there is a law. But obviously, I would not provide this response. But if anyone believed that possessing this direct managing authority I would use the police to perform all kinds of unconstitutional actions, matters the police could not even be obligated to perform, that person would be gravely mistaken. Come on now! I am also bound by the law. All I can say is this: A minister's responsibility is complete if not even the authorizations are limited. But if this does not work, so be it! I will not blow up this issue larger than its own significance.

[Kerekes] What kind of country does Peter Boross envision on these 93,000 square kilometers of land?

[Boross] A pluralist democratic state order in which the atmosphere is becoming increasingly more clear, and in which debates become more objective. A situation in which opinions will not be self-serving, where discourse is pursued in the interest of something, and not constantly against something. A country with a certain kind of order in which everything is permissible that is not prohibited, and in which nothing is permissible that is prohibited. A country in which the ideals of the nation, coupled with the spirituality of European citizenship, determine the spirit beginning at a young age.

[Kerekes] I believe that one could only guess when this beautiful, new world could arrive.

[Boross] Yes. For the time being, some bad reflexes operate despite the fact that we are in the midst of huge changes. The country is angry, public life is angry. The one whose back is pinched will scream as if they had carved a belt out of him. We are living in a world of overreactions. But perhaps next year, or in two years, unless something comes in between, we may leave behind us this rough transition era.

[Kerekes] What could come in between?

[Boross] I have in mind primarily external effects. Who could have predicted the Gulf war just a year ago?

[Kerekes] And conflicts within our borders?

[Boross] I am not concerned about those. The cabinet which works in an environment filled with unprecedented difficulties has been subject to a mass of attacks, and yet we still exist. And as far as possible illegal combinations are concerned, I will fulfill my duty very firmly...extremely firmly, but only if laws are not violated.

Nationalist Weekly Claims Unjust Persecution

91CH0654A Budapest SZENT KORONA in Hungarian No. 19, 29 May 91 pp 6-7

[Unattributed article: "The Trial's Antecedents: Investigation by the Public Prosecutor's Office"]

[Text] It was back in early September of 1989 that the then interior minister, Dr. Balazs Horvath, ordered the

public prosecutor's office to investigate SZENT KORONA. The obvious purpose of ordering an investigation was that the new National Assembly and the new government that had come to power in the elections wanted to finish off, immediately and drastically, their political opponents, the real opposition. This show of political power is thought-provoking, if for no other reason, because since then Prime Minister Jozsef Antall has been criticizing openly the antigovernment bias of the media, while emphasizing that freedom of the press, which does not spare even the country's top leadership, is a concomitant of democracy.

In Hungary, the former party-state's completely loyal, excellently organized and centralized system of public media capitulated and disintegrated only seemingly after the change of regimes. Gullible citizens lived through last spring's elections believing that communism had been rejected in Hungary once and for all. For that very reason, they paid hardly any attention to the ordering of a criminal investigation against SZENT KORONA. Yet the rude attacks against MAGYAR FORUM, HUNNIA FUZETEK, and SZENT KORONA since July of last year have indicated the new power elite's intention to liquidate, quickly and ruthlessly, the independent papers which it is unable to control.

Consequently, Jozsef Antall and those around him where not weak and uninformed: behind the seemingly hesitant "small steps" they took in the name of faltering democracy there was the cool and rational offensive of the former party-state's apparatus that had "changed sides." The tactic of deception was enhanced by the uninhibitedness of the flood of pornographic literature, attributed to freedom of the press. Actually, the proven method of undermining moral values and traditions was being unleashed against Hungary and its Catholic majority.

Another point of interest we must emphasize is that Dr. Balazs Horvath, the former interior minister, announced in front of television cameras the commencement of a criminal investigation by the public prosecutor's office against SZENT KORONA, just when the prime minister was presenting his report to the nation on his first 100 days in office.

Machinery Set in Motion

Despite the all-out offensive against it, SZENT KORONA has not ceased. To the contrary, it actually has become one of the country's most important papers, primarily because it reliably reports the unvarnished truth. A merit of the paper is that nobody is ever paid for editing it, or for writing the published articles and essays.

The investigation against SZENT KORONA by the public prosecutor's office was directed from the notorious former State Security headquarters in Gyorskocsi Street. That is where also the "questionings" and "confrontations" took place. The officer in charge of the

investigation was an experienced interior ministry official, freshly transferred from Tolnai Street. He had been "handling" the Jurta [Theater] already in 1988. After the change of regimes it was quite natural to retain for the supervision of the opposition's national center a person already familiar with the Jurta denizens and with Laszlo Romhanyi as well.

Premises Searched, Other Strange Happenings

Detectives appeared at the Jurta and at Romhanyi's apartment. The search warrants were the new democracy's disgrace. And so was the character assassination of the Jurta denizens, parallel with State Security's activities. Epithets such as fascist, irredentist, nationalist, Horthyist appeared on the pages of MAGYAR HIRLAP, NEPSZABADSAG, KURIR, VASARNAPI HIREK, and MAI NAP. Rowdiness by skinheads was attributed to the Jurta. Hungarian citizens longing for peace and quite were being frightened with visions of destroyed commemorative plaques (23 October), overturned statues (15 March) and extreme-right demonstrations.

Indictment

The indictment was prepared. Makeshift is the one word to describe it. It takes single sentences out of context and attempts to fashion a criminal offense from them. Rakosi's and Kadar's henchmen used to turn out such indictments on a production line. The imagination of the new regime's old servants, it seems, does not soar above their predecessors' imagination.

It is important to note that the character assassination campaign has not weakened the Jurta. If anything, it has strengthened the camp of those who are dissatisfied with the postponement of the change of regimes.

The indictment is against Laszlo Romhanyi and his two codefendants. It fails to mention that SZENT KORONA is the weekly of the Christian National Union and of the National Alliance of Hungarians. It disregards the fact that Gyorgy Stoffan, the No. 2 defendant, is also the informer! That the provocateur, the planted agent, is Romhanyi's codefendant. Today Stoffan is on the KURIR staff.

15 May, Trial's First Day

On the day of the trial, the National Alliance of Hungarians organized a demonstration in front of the Pest Districts' Central Court (25 Marko Street). Both the police and the court had refused to allow the demonstration. Their reason: the demonstration would influence the court's decision! Yet another blow at ever-weaker democracy.

Several hundred Jurta supporters came to the trial. The building that has survived many storms was swarming. Dr. Pentek's bench had scheduled the trial in a courtroom that could accommodate only 30 persons. Dr. Laszlo Nagy (Romhanyi's defense attorney), Jeno

Fonai and Laszlo Romhanyi firmly demanded that the trial be moved to a larger courtroom.

The Hungarian National Party, the Hungarian Royalist Party, the Radical National Party, 12 provincial organizations of the Independent Smallholders Party, the Hungarian Independence Party, Worker Solidarity, the Hungarian Gardeners Association, the Association for the Preservation of Military Traditions and the Home-makers Association protested against the show trial. Hungarian organizations in France, America, Australia, and Germany also sent letters of protest to President Arpad Goncz and to the minister of justice. The European Parliament and the Geneva office of the United Nations likewise confirmed receipt of protests from several Hungarian organizations.

The trial opened with the presentation of the indictment, after which it took a sudden turn when Dr. Laszlo Nagy raised two procedural objections. First, he claimed that the reference to the Criminal Code in the indictment was unconstitutional, because Section 61 of the Constitution guarantees freedom of speech for every Hungarian citizens, whereas Section 269 of the Criminal Code (continual agitation against the state, the charge on which the indictment is based) was a vague statutory provision of the former party-state, on the basis of which it was possible to bring anyone before the court, at any time, for anything. Dr. Laszlo Nagy emphasized that this was in conflict with rights that Hungary has ratified.

The presiding judge, Dr. Laszlo Pentek, accepted the defense attorney's arguments. But Dr. Laszlo Nagy also challenged the impartiality of the presiding judge and the assessors. Emphasizing that he had lacked time to vet the composition of the court beforehand, Dr. Laszlo Nagy warned that anyone of Jewish or Romanian extraction should disqualify himself from hearing the case.

A Romanian Assessor

Namely, the assessor sitting on Dr. Laszlo Pentek's right was a Romanian. He looked like someone from the Regat [Wallachia and Moldavia].

The judge adjourned the proceedings and requested Dr. Laszlo Nagy to prepare the submission to the Constitutional Court.

National Opposition Celebrates

The crowd waiting in the corridor greeted with great ovation Laszlo Romhanyi and "the real hero of the day," Dr. Laszlo Nagy, as they emerged from the courtroom. The many former prisoners and victims of old show trials, the cream of the Hungarians, sang the National Anthem and the Transylvanian Anthem. The sense of togetherness and solidarity demonstrated how strong are the Hungarians when they dare to say the truth, support their best compatriots and are not afraid of terror. For that building on Marko Street was not the only place where the two national anthems rang out resolutely and very firmly on May 15th. Prayers for the victory of

SZENT KORONA were said in a good many of the country's churches, and in Szekszard there were demonstrations in front of the local court building.

National Anthem, Journalists

There were a good many reporters in court. KURIR had sent two: a disheveled, hirsute fellow, and a maid. Yes, these two write their opinion and dictate to hundreds of thousands, through the press, what Hungary must do, feel and think! During the singing of the National Anthem, of course, the two continued to chat and laugh. The celebrating crowd protested indignantly against such cynical behavior. Those for whom the royal crown is merely a beret will also chat through the singing of the National Anthem, with their hands in their pockets.

Gyorgy Gado also appears in the corridor. He is the informer on duty who recently launched a campaign against HUNNIA. We learn that Comrade Gyorgy Gado had been very influential already in 1952 as one of the department chiefs in the Social Welfare Ministry of the day! And after 1957 he was on the NEPSZABADSAG staff! A big Communist, and a big dissident since the 1980's. He was the one who declared in the Jurta (in 1988) that there was no anti-Semitism in Hungary, but hatred ought to be fomented so that there would be. Because the Grosz regime could then fall that much sooner.

Sandor Racz, the 1956 labor leader, notices Gado and shouts to him over the heads of the crowd: "What's up, Gado? You do not even greet me because I am now on the other side, and not where you and your comrades are standing?!"

The mention of Gado's name has the effect of a viper's bite. The crowd turns toward Gado. Zsolt Lanyi, a leader of the National Smallholders, shouts across to him:

"You are that famous Gado? Come over here among us and try to explain to the people here all the things you have been lying about in the parliament!"

Gado's self-assurance evaporates. Frightened, he looks around. Seeing the threatening crowd, he shouts for police protection. Lanyi nods to the two policemen near him and says: "Take him away, boys."

And the great Gado, escorted by two policemen, flees from the court building.

Libel

The next day, 16 May, the press attacks with frenzy. KURIR in particular, Gyorgy Stoffan's newspaper. Its front-page headline reads: "Jewish, Romanian Judge Not Wanted!" It presents the preceding day's events as if they had created a scandal solely because of racial prejudice. Moreover, it lets Gyorgy Stoffan have his say. Although a codefendant, Stoffan attacks the defense attorney (!) in the SZENT KORONA case, and the entire audience as well.

In KURIR (in a report from the dock) Stoffan writes:

"I was shocked to see in the court's corridor the president of POFOSZ [Alliance of Hungarian Political Prisoners] and several other prominent citizens whom I have greatly admired up to now, and who truly have done something for the success of the change of regimes. Romhanyi marched triumphantly into the barely accessible courtroom. There the trial began after lengthy wrangling, or rather the indictment was presented. Then the whole thing ended suddenly, after the defense attorney's incredible objections, the judge adjourned the proceedings.

"The crowd swarmed into the corridor and greeted with loud cheers its leader who accepted the ovation holding the national emblem in his hand. A few minutes later the crowd began to sing the national anthem (As published, no initial capitals. Editor). The trial reminded me of Munich in 1938 and of Pest in 1944. If these people ever come to power, every honest person of right mind will have to flee the country, provided he still has time to do so."

In MAGYAR HIRLAP, Janos Bercsi is abusive in his "hooligan style." Bercsi belongs to the SZDSZ. In 1988 he spent every day in the Jurta. Now he is libeling. He does so again two days later, interviewing only Budai, Kulcsar and Stoffan. He suppresses facts: namely, that SZENT KORONA is a party newspaper, a real organ of the opposition.

An objective report in NEPSZABADSAG is followed by a commentary from the Great Diurnus alias Pal Bodor. What happened before the court on 15 May is a blot on Hungarian history, according to Bodor. Yes, he knows of what happened only from Stoffan's account. Munich in 1938, and Pest in 1944. Pal Bodor is in his element. He demands retribution. The immediate liquidation of nationalism. The champion of freedom shouts for prison terms! The great humanitarian demands retribution. Once again Bucharest speaks from the columns of NEPSZABADSAG.

On 168 Oraban [During 168 Hours], Katalin Rangos interviews Akos Vathy, the vice president of the Budapest Court. Hatred drips from Rangos's every question. She demands reprisals against the SZENT KORONA supporters who dare to investigate a person's ancestry. She is attempting to influence in advance the Budapest Court that will be the appeals court in this case. This is how low the morality of the liberal-bolshevik media has sunk. The media campaign of the show trials, in which the victims dragged before the court were Horthyists, fascists, nazis, irredentists, chauvinists and scoundrels, is being revived.

Dear Katalin Rangos, what has become of law and order, of freedom of the press and equality to engage in politics? Where is the responsibility of the scribes amidst the hatred of the attempts to sway the public with cries of "crucify him, crucify him"?

They Want To Disbar Dr. Laszlo Nagy!

The liquidation of the Jurta and SZENT KORONA has started like a steamroller. In its 22 May issue NEPSZABADSAG published the text of an appeal, according to which the Jurta is allegedly soliciting funds in the West, in the name of Arpad Goncz, Imre Mecs, Zoltan Kiraly, Sandor Lezsak, Tamas Deutsch and Gyula Hernadi! Tamas Kiss, an agent living in Dusseldorf, sent the handbill to NEPSZABADSAG. A familiar method: They have some material printed and then disseminate it, as if it were being mailed out by the Jurta. A diabolic mechanism for discrediting! Worthy of NEPSZABADSAG, and of Peter Vajda, the former State Security press czar who is directing things from behind the scenes.

The machinery has been put into motion also against Dr. Laszlo Nagy. The purpose is to intimidate one of the most outstanding Hungarian attorneys. They want to disbar him from the Chamber of Attorneys, for inciting racial intolerance!

Because he is Laszlo Romhanyi's defense attorney?

Is there no room in an alleged rule-of-law state for anyone defending the Constitution against a flawed law?!

Jurta Premises Searched Again

Dr. Sandor Nyiri, the deputy prosecutor general, has prepared yet another political trial to silence SZENT KORONA, and thus the opposition parties gathered around the Jurta. Gyula P. Bujdoso's article "Reconciliation" appeared in this year's issue No. 13. They regard the article as being anti-Semitic. In other words, Dr. Sandor Nyiri and his staff are generating anti-Semitism artificially. Show trials, funerals and harping on racial issues are a good way to cover up the real social problems of today.

Gyula P. Bujdoso is every inch a journalist. He belongs to the great Transylvanian generation that learned journalism at the table reserved for Ferenc Szemler, Laszlo Szabedi, Karoly Molter, Jeno Szentimrey, and Gyorgy Beke. And Bujdoso is a genuine Transylvanian, not like Pal Bodor. He is not serving Romanian interests, but is a wonderful Hungarian at heart. Anita Szabo, Laszlo Romhanyi and Gyula P. Bujdoso have been summoned to Berkocsi Street, and the Jurta premises were searched again on 22 May, in preparation for yet another trial.

The police state continues to function.

Allegedly, neither Prime Minister Jozsef Antall nor Interior Minister Dr. Peter Baross knew anything about the trial against SZENT KORONA.

If they read SZENT KORONA, we are hereby informing them about the latest search and about the fact that another investigation is in progress.

What is happening here in Hungary today?!

New Rules for Segregated State Funds

91CH0685E Budapest FIGYELO in Hungarian
23 May 91 p 17

[Article by Dr. Gabor Kiss under the rubric "Economic Law": "Segregated State Funds of the 'New State Budget System'"]

[Text] At the time the National Assembly adopted tax reform legislation it also obligated the government to develop state budget reform concepts. The reform concept developed by the Ministry of Finance was the subject of debate by the National Assembly in July 1989, and by virtue of Resolution No. 15 of 13 July 1989 the legislature accepted the material as the basis for further work.

Thereafter, during the fall of 1989, the first draft of the state budget law was prepared, but the merits of this proposal were not discussed by the National Assembly in due regard to the changed situation. Experts continued to work after the political system change. The cabinet is expected to present the legislative proposal to parliament during the first half of this year.

The state budget law is supposed to designate the operational framework of the democratic, constitutional state's administration. The law provides the basic principles and guarantees which ensure conditions for the efficient management of public funds and of broadly based openness regarding the utilization of financial resources.

The law now being prepared also contains significant changes with respect to segregated state funds. Even though the final version of the law has not been prepared, drafts thus far indicate the place of central financial resources in the framework of the new state administrative system.

Only by Law

Changes in this field are needed because of the inconsistency of present rules with the conceptual requirements of modern state administration, despite the fact that state budget support of the more than 30 presently operational central state funds has increased year after year. (Support amounted to 21 billion forints in 1988, 66.8 billion forints in 1989, and 65.9 billion forints in 1990.)

One of the most essential changes certainly to be adopted is the requirement that following the adoption of the state budget law segregated state funds may be established only by law. As a result, the practice based on Paragraph 4 Section (1) of Council of Ministers Decree No. 23 of 28 June 1979, which implements Law No. 2 of 1979 will lose force. This provision delegated the authority to establish funds to the cabinet. Not to mention the fact that legal provisions of lower rank also established several funds, or provided new rules for funds which already operated prior to 1979.

Regulation of this matter at the level of laws enacted by the National Assembly ensure full prevalence of the principle of appropriations, i.e., only by law will it be possible to prescribe an obligation to allocate moneys to these funds.

Presently, a government decree may also establish such obligation, moreover, prior to the effective date of Law No. 14 of 1988 a decree promulgated at lower levels could also have accomplished the same.

The law which establishes funds must specify the purpose of the fund, the additional revenue sources to cover the expenditures involved in the tasks to be realized, the expenditures related to the tasks to be realized, and the person or organ with dispositional authority over the fund.

Cabinet decree No. 2 of 1 January 1991 has already terminated the authority of the finance minister to establish funds exclusively for accounting purposes. Consistent with the principles of openness, transparency and accountability, this provision will also be part of the new state budget law.

Reporting

Neither the law concerning state finances nor its implementing decree included provisions which mandated reporting concerning the use of funds. Even the legal provisions that established such funds rarely required the persons responsible for the management of funds to report. Beginning in 1988, reporting requirements appeared in an increasingly larger number of legal provisions which established funds.

Relative to the Central Technical Development Fund and the Bankruptcy Reorganization Fund the managers of these funds are obligated to submit an annual report to the National Assembly. The finance minister reports to the cabinet concerning the utilization of the Collateral Security Fund. In Decree No. 46 of 21 June 1988 providing for a Higher Education Fund the Council of Ministers was satisfied by saying that a report must be made public concerning the utilization of this fund, but the decree failed to specify the method by which such report must be made public.

The legislature intends to require that in the future the cabinet annually submit the planned amounts of revenues and expenditures related to these funds for National Assembly approval. Fulfillment of the purposes of these funds must be reported in conjunction with legislative proposals providing for the final settlement of the funds.

Accordingly, these funds must be budgeted for in a manner consistent with rules applicable to the state budgetary balance, and similar to budgeting for other subsystems of the state budget. In addition, the National Assembly must review each fund every four years, and must render a decision concerning continued operation.

This system renders the operation of funds fully transparent to the National Assembly. The parliament will be able to see the real picture regarding the state budgetary balance. This should be contrasted to the present practice which is based on the fact that under the heading of "modernizing" state management, Law No. 9 of 1987 which amended the financial law redefined the relationship between certain parts of the budget and the budget itself. As a result of these provisions the central chapter was tied to segregated state funds on the basis of net, rather than gross calculations. After Law No. 9 went into effect, the state budget showed only the amounts allocated in support of state funds, and the revenues and expenditures of these funds were not part of the budget.

It follows from the character of the operation of these funds that even though they serve the purpose of financing certain state functions, they also utilize amounts received from sources other than the state budget. The financing of programs from sources separate from the central state budget justifies the requirement that no fund financed exclusively by the state budget shall be established.

On the other hand, one must not disregard the fact that in the event that various fines and payments of the character of penalty are also specified as part of a fund's resources, the resource in question would otherwise contribute to the budget, and that the only difference with respect to such funds is that such revenues contribute directly to the financing of the purpose of the fund, avoiding the state budget.

Safeguards

Certain issues cannot be regarded as having been finalized at the present stage of codifying work. The final answer to these questions will presumably be given in the course of parliamentary debate. One such issue is whether the authority to manage such funds should be restricted only to ministers or heads of organs having national jurisdiction, and further, whether additional funds may be borrowed against the fund. Another disputed issue pertains to the extent and form in which moneys allocated to such funds may be withdrawn.

The establishment and operation of segregated state funds will also be necessary in the future for the financing of certain state functions. But in order for these funds to fulfill their purposes, a system of guarantees will have to be established. Such system would ensure effective control over these funds, and would rule out the possibility of removing the moneys contained in these funds from under National Assembly control.

Monetary Policy, Authority Discussed

91CH0685A Budapest FIGYELO in Hungarian
9 May 91 pp 1, 23

[Interview with Sandor Czirjak, Hungarian National Bank deputy president, by Katalin Ferber; place and date not given: "Strict, but Is It Fair?"—first paragraph is FIGYELO introduction]

[Text] Has the world turned upside down? Certain reports have surfaced in the press according to which the Ministry of Finance expects the MNB [Hungarian National Bank] to follow more stringent policies than before. Could the Finance Ministry expect this from the MNB? Among other questions, we asked MNB Deputy President Sandor Czirjak about this matter.

[Czirjak] Part of my response pertains to methodology, the period to which certain data applies does make a difference when judging changes in the money supply. If we compared for example the year-end data from 1989 and 1990 we would find that the money supply increased by 29 percent, which indeed suggests that the central bank pursued lax lending policies. Year-end data is also influenced in part by special (seasonal) factors. (For example, by certain delayed financial transactions.) For this reason, instead of following the old practice in which we compared only the data reflecting year-end conditions, we endeavor to establish conditions to obtain information yielded as a result of analyzing processes. Comparisons based on data of a given point in time yield entirely different final results than the analysis of processes. For example, according to a comparison based on year-end data, the speed by which money turned over had increased by six percent, but in comparing the same data applicable to a quarter year we find that the speed by which money turned over slowed down by one percent in the economy.

[Ferber] Is there a factor in the Hungarian economy which can be accurately expressed in numerical terms, and which influences changes in the money supply to a significant extent?

[Czirjak] Yes, there is, for example the sudden rise in the number of businesses. Everyone will understand that breaking up a firm into a number of smaller firms will require an increase in the money supply. Or, for example, we have the situation in which we changed our payments terms with the former socialist countries from prompt payment to 90 days. At the same time, the need to hold on to funds by businesses has changed, and thus concern for managing liquidity has come to the forefront, as compared to the previous period.

[Ferber] Do the factors you just mentioned also influence the practices pursued with respect to the availability of cash?

[Czirjak] Of course they do, because it is important to enterprises, particularly in relations between enterprises, whether a given partner pays, and if so when.

[Ferber] Contrary to the opinion expressed by the Finance Ministry, the commercial banks claim that the monetary policy pursued by the central bank is too stringent. Who is correct?

[Czirjak] If I wanted to be ironic I would say that if judging the MNB from two sides yielded opposite findings, then the central bank's policy were just right. Taking your question seriously, however, we would first

have to clarify the situation of the commercial bank which expressed this opinion. It should be easy to recognize that commercial banks which have easier access to resources outside the central bank would feel the rigor of the monetary policy to a lesser extent. It is apparent that those who had to resort to central bank refinancing before and continue to do so at present would feel the stringency of the central bank in a very direct way.

[Ferber] Commercial bank general meetings held in recent weeks suggest that an irreconcilable conflict exists between acquiring state property and the related state strategy on the one hand, and the business policies of commercial banks on the other. Is this only a seeming conflict, or is it a real one?

[Czirjak] First of all, as far as the payment of dividends and the accumulation of reserves are concerned, in my view, the state conducted itself as an owner for the firms time only as of this year. Accordingly, the contradiction is not between commercial banks and the state, but between small stockholder interest in short term profit taking and the long term strategy pursued by the banks. Let me give you an example in this regard. In several mixed [ownership] banks dividends are used to increase capital. The same thing expressed by different persons means different things. I also expressed my hope to the National Commercial and Credit Bank general meeting that the state would within a short period of time sell part of its stock in the commercial banking system to foreign owners. The conflict you mentioned is augmented by the fact that there is no banking law at the moment, thus the state as an owner performed regulatory functions which would be regulated by the banking law in "normal" cases.

[Ferber] I have before me a table which shows the distribution of domestic lending between 1987 and 1989. It presents a very contradictory picture, because resource allocation between the state, the enterprises and individuals appears to contradict market building endeavors manifested by the central bank. Has this situation changed in 1990?

[Czirjak] In 1989 the net position of the state, i.e., of the budget deteriorated by 85 billion forints, meaning that a decisive part of the credit resources were used to finance the budget [deficit]. At the same time the entrepreneurial sector's indebtedness amounted to 40 billion forints. In 1990 the state produced a net savings of 2.2 billion forints, meaning that it did not utilize borrowed funds. As a result of this fact money available for lending was used to a much greater extent by the entrepreneurial sector, although I would add that insofar as net positions were concerned, resource utilization was much smaller also in this sector, while gross credits taken by the entrepreneurial sector increased by 135 billion forints. In other words, monetary stringency fundamentally prevailed vis-a-vis the state, and not with respect to businesses.

[Ferber] What could the central bank do to support a system which enhances the improvement of the country's balance of payments, and not the security of businesses, replacing the prompt payment system which provoked intense passions last year?

[Czirjak] In principle, last year's problem has ceased to exist, because we changed to a different payment structure. In practice, however, we continue to have agreements which created a significant surplus in trade transactions that were settled in nonconvertible currencies. This surplus amounts to about 600 million rubles this year.

[Ferber] But this amounts to the lending of resources, doesn't it?

[Czirjak] Of course it does, but the greater trouble is that this constitutes lending relative to which we have no idea at all whether any of borrowed amount will be repaid. The central bank protested this matter last year already, the deadline was 31 March 1991, by then the implementation of prompt payment agreements underwritten by interstate agreements should have been complete. I hope that by now we surpassed this situation. We instructed enterprises not to make deliveries to a single former socialist country unless they have letters of credit confirmed by the central bank. This had some effect, because deliveries have indeed declined. Accordingly, business conduct is changing, in contrast to the earlier conduct, because they will not receive forints from the central bank if they make deliveries without payments.

[Ferber] What is the situation with the mutual indebtedness of enterprises which evoked so great disputes in 1990?

[Czirjak] First of all, forms of payment which do not use cash are not widespread in Hungary. Thus, the widespread practice in market economies of enterprises granting credit to each other is not at all customary here. In other words, part of the present nonpayment consists of delayed payments, payments not made by the due date. The other problem with respect to standing in line is this: How large is the volume of the supplemental money supply this phenomenon pumps into to economy? In my view, this money does not constitute additional loans, but a redistribution of liquidity, because enterprises as a whole cannot use this money to pay for added wages, cannot purchase additional imported goods, etc.

[Ferber] Some people feel that today's commercial banking system is incapable of setting in motion this frozen mass of receivables and debts without additional resources from the central bank. Is this true?

[Czirjak] The central bank is consistent and has no mercy in this regard. We do not finance the indebtedness of enterprises which experience long-term insolvency. There are solutions to bridge situations in which shortages of funds lasting for a week or two are involved.

Commercial banks have taken advantage of this financing structure to the extent of one or two billion forints, but with little results. They realized that they would be unable to finance enterprises that are unable to function. Bankruptcy proceedings must be initiated in such places, not credit financing.

[Ferber] The following question has nothing to do with the questions I asked before, but what is the situation with the partly divided authority over foreign exchange management? The legislative proposal that deals with the banking system divides this authority between commercial banks and the central bank by retaining a large part of the MNB monopoly at the MNB. Is this a contradiction or is it not?

[Czirjak] It is, but the central bank is forced to continue to perform a large part of the functions of our young commercial banking system which is largely unknown in the international financial world. Eminently, one such function is the area of debt management.

The perspective of this is that commercial banks will gradually assume responsibility for the foreign exchange transactions presently performed by the central bank, but transferring this responsibility depends on so many factors—the speed of privatization, the recognition of banks, etc.—that the MNB is forced to continue to hold on to this sweet as well as bitter burden and responsibility.

[Ferber] What guarantees will there be for the independence of the central bank?

[Czirjak] In my opinion, legal guarantees are needed, but that is not enough. Real societal control is also needed in order to be independent. Viewed from another vantage point, the independence of the central bank is a relative matter. It would be naive to believe that monetary policy could direct the economy on a path that is entirely different from what economic policy or political action wants to accomplish.

The central bank needs to have room to act in two fields: interest rate policies and the regulation of the money supply, and these must be ensured. Exchange rate policies constitute an area in which negotiations are indispensable. The understanding of central bank policies, and having such policies accepted necessitates the broadening of the information we publicize, and this includes the development of our information system.

[Ferber] Has the central bank's weight, its professional and political prestige increased in the eyes of the cabinet?

[Czirjak] In my judgment it has. Not only in the preparatory and predecision making stages, but also thereafter. Quite naturally, without reaching consensual agreements the central bank proves in vain the appropriateness or inappropriateness of its decisions. Good policies are characterized by the fact that decisions are

made within the economically possible sphere, and that interest reconciliation takes place within that sphere.

Court Decision on Product Warranty Criticized

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9 May 91 pp 1, 5

[Article by B. R.: "Whose Interest Does It Serve?"]

[Excerpts] It is doubtless that the great hit in MAGYAR KOZLONY No. 39/1991 is the Constitutional Court decision declaring the unrestricted use of personal identification numbers unconstitutional. But on pages 804-805 of the same issue we find another Constitutional Court decision whose economic impact is at least as great as that of restricting the use of personal identification numbers, if not greater. Budapest resident Ferenc Szucs petitioned that Decree No. 4. of 30 March 1969, promulgated jointly by the [former] Ministries of Commerce, Metallurgical and Machine Industries, Light Industry, Trade and Transportation, and Heavy Industry concerning minimum warranty provisions applicable to durable consumer goods, be declared unconstitutional. According to the petitioner's reasoning, most provisions of the Decree conflict with warranty requirements specified in the Civil Code of Laws. The law which predates the decree provides that repair, price reduction or exchange must be made at the buyer's option. But the decree mentions repair in the first place, and exchange is made possible only in exceptional cases. The Constitutional Court declared the Decree concerning minimum warranty requirements unconstitutional, and voided the Decree effective 15 September 1991.

Quite obviously, manufacturers and merchants will not rejoice upon hearing this report. According to Ramovill's service manager, thus far, pursuant to present practice, exchange was made after five repairs. Last year Ramovill paid 130 million forints for this purpose, including indemnification. Due to the lower quality of consumer goods originating from socialist countries many buyers requested exchange in the past. But we are not importing the best quality products from Western countries either. Let the repairmen worry if the decision to request an exchange or repair is left to the buyer—they will soon find themselves without work.

But how should we, as consumers view the decision? The obvious answer is "with joy." But the opinion expressed by Tamas Schagrin, IKM [Ministry of Industry and Commerce] deputy state secretary, will put a question mark after this joy. The Constitutional Court based its decision on the idea that the decree concerning warranties, as a separate law within the civil law, could have deviated from the product warranty requirements contained in the Civil Code of Laws only to the extent that the decree strengthened conditions from the standpoint of the seller. According to Schagrin, however, a warranty does not necessarily convey the assumption of a more stringent responsibility because the buyer enjoys more

favorable rights than those specified in the warranty. The Civil Code of Laws provides that under warranty, the obligated person, let's say the merchant, is responsible to the extent that at the time of sale the merchandise sold possessed the attributes specified by law and in the sales agreement. In case of dispute between the buyer and the seller, the buyer must prove that the merchandise was flawed at the time of delivery. In contrast, based on the Decree concerning warranties the seller assumed responsibility for the proper functioning of the merchandise (or service) during the warranty period, provided that it was used properly. On the other hand, in such cases the seller must prove that the merchandise developed flaws after delivery. According to the IKM, the mandatory warranty contains more stringent provisions than the warranty provided for in the Civil Code of Laws. Accordingly, the buyer will not be better off, indeed: he will be worse off if the Decree declared unconstitutional loses force. [passage omitted]

The product warranty provisions in the Civil Code of Laws are not necessarily fully consistent with the mandatory warranty provisions [contained in the Decree]. But this inconsistency should be resolved not by voiding mandatory warranties, but by amending the Civil Code of Laws so as to make more stringent the rules pertaining to faulty performance, changing these provisions so as to acquire the character of a warranty, at least between the merchant, the entrepreneur, and the buyer.

Real Estate Sales Situation Discussed

"Renaissance of an Industry"

91CH0684A Budapest FIGYELO in Hungarian
30 May 91 p 25

[Unattributed lead article in the first monthly installment of a FIGYELO supplement on the real estate market]

[Text] Those involved in the real estate profession claim that there is no real estate market in Hungary today. The arguments which support this claim are: ownership conditions are unsettled for the time being, solvent demand is rather limited, specialized investment firms to deal with the sale and purchase of real estate are missing, and the supply is so-so. Further, there is no regular information flow concerning real estate transactions, the composition of real estate sales and, above all, about real estate prices.

There exists no real estate market, but one is taking shape. The "real estate industry" appears to come to life, and there is nothing surprising about that. The socialist planned economy represented the pin prick to this industry. It rocked it into a deep sleep for 40 years. Aside from leasing, there were practically no real estate transactions under the all pervasive rigid state ownership system. On top, whoever purchased real estate in order to sell the same was stigmatized as a "speculator." The debatable pace and extent of the spread of market

conditions created a new situation. Property is no longer allocated, it is being bought and sold, even though the sale of leasing rights continues to be the characteristic form of transactions.

The real estate market is moving, and this is an unavoidable companion of economic transformation, and primarily of the privatization process. But conditions for a functioning real estate market could not yet evolve. But we have gotten beyond the turning point. A number of people are involved in the real estate market, and mushrooming real estate firms already established their first interest groups. These are the National Association of Real Estate Brokers and Appraisers (IKEBE), and the subsequent Chamber of Hungarian Real Estate Salesmen which functions as a member of the Hungarian Economic Chamber. Incidentally, the two interest groups which provide professional services do not compete with each other. The difference between the two is that based on corporate law private persons may also become members of the IKEBE. Significant foreign interest has also manifested itself in the Hungarian real estate market, more than one West European and overseas real estate firm has opened offices in Hungary.

Not even estimates exists regarding the value of Hungarian real estate assets. But it is certain that once real owners exist, they will endeavor to utilize these assets in the productive sphere, in domestic commerce as well as in terms of service provisions. The big question is whether the new owners will possess sufficient expertise for the efficient operation of their assets. We do not wish to offend anyone's professional self-esteem, but the answer to this question is likely to be in the negative. And this represents a huge market primarily for real estate brokerage and appraisal firms.

Including this fact, Hungarian real estate sales are still far from reaching a level at which the sale and purchase of real estate constitute a definitive ratio within the domestic sale of products and services. As a matter of comparison, in the United States, real estate sales constitute about 20 percent of all domestic sales. And yet another overseas example, about one-fifth of the revenues of the autonomous Canadian City of Toronto is derived from office leasing fees.

The Hungarian real estate market is far from all this, at least as far as America is concerned.

Chamber President on Prospects

91CH0684B Budapest FIGYELO in Hungarian
30 May 91 pp 25, 27

[Interview with Lajos Szabo, Chamber of Hungarian Real Estate Salesmen chairman and LIMES president and chairman, by Arpad Hajnoczy; place and date not given: "Before Awakening?"—first paragraph is FIGYELO introduction]

[Text] Many believe that the real estate market is threatened by collapse, business is slow with only a few

transactions being consummated. Others claim that something that does not exist cannot collapse, i.e., that during the past 40-some years the real estate market was frozen and that the only question is whether it is possible to awaken it from its Sleeping Beauty dream. Lajos Szabo, chairman of the Chamber of Hungarian Real Estate Salesman, and president and chairman of LIMES, Inc. responded to our questions.

[Hajnoczy] The real estate market is slow. Is this slowness caused primarily by the lack of solvent demand?

[Szabo] The supply is clearly small in terms of high value, institutional real estate. In contrast, however, there is great demand for real estate, but only a small part of that demand represents solvent demand. In my view, the reason for the limited supply is that a large part of real estate cannot be sold, or can be sold only on the basis of various permits. And if the AVU [State Property Agency], the Property Control Committee or an enterprise council having jurisdiction concurs with the idea of selling real property, concerns may be raised by unclear ownership or leasing rights.

Most of the transactions result from forced sales, i.e., owners sell because they find themselves in financial straits. This activity, referred to in professional parlance as the selling out of assets, provides a breather to enterprises which otherwise lose money. They sell the ownership rights or leasing rights to their various office buildings and employee recreational facilities.

Buyers have no opportunity to pick and chose from a dozen pieces of real estate. And prices go up as long as the supply is low, and these price increases are enhanced in Hungary by inflation. The claim that in Hungary one can sell real estate at any price is a falsehood. As far as I am concerned, the real estate market cannot collapse, because it has yet to evolve.

[Hajnoczy] Supply is likely to be only one factor in the functioning of the market. What is the situation on the resource side?

[Szabo] In developed market economies investors buy and sell real property with a small down payment of their own, using bank loans. If prices drop in the market and the outstanding loan is threatened, the creditor may implement a forced sale. Supply exists because there are many real estate salesmen, called speculators, who make a living out of buying and selling real estate. These real estate sales are consummated consciously and are backed by bank loans. Generally speaking 20 percent of the selling price is derived from the buyer's own resources, and 80 percent comes in the form of a mortgage loan. In Hungary mortgage lending is very limited, and there are no investment companies which buy and sell real estate on an entrepreneurial basis.

[Hajnoczy] It appears that high value real estate is somewhat similar to industrial enterprises. Whatever could be sold has deteriorated, and there are no funds to

refurbish the facilities. Under such conditions what factor could be expected to set the market in motion?

[Szabo] Indeed, there are no resources, there are no low cost loans which could be used to restore deteriorated real estate, and then sell the same. Nevertheless, the fact is that banks and investors did buy up certain real property. There will be supply and price fluctuations in the real estate market when banks gradually foreclose on dozens of real property because of the debtors' insolvency. And if these "freeze," they will be forced to throw them on the market.

[Hajnoczy] What role do the AVU and the local governments play in shaping the real estate market?

[Szabo] Huge but different roles. Local governments are confused about the concepts of management and enterprising. They should be engaged in management in my view, i.e., in securely managing the community's money. Instead of doing so they often engage in risky ventures.

Let us assume a situation in which a local government plans to build a hotel on a vacant lot. One solution would be for the local government to have the lot appraised, then sell it and invest the proceeds in treasury certificates. The other possibility is that the local government establishes a stock corporation in the form of an enterprise for the construction and operation of the hotel. The local government would contribute the lot to the venture, and with that it would acquire 10-percent ownership of the hotel. Later on it turns out that the money is not enough and the stock corporation doubles its capital. At this point the local government owns only 5 percent of the hotel. In the end the hotel joins a chain of hotels, and instead of receiving the hoped for large dividend it only receives a token income.

[Hajnoczy] What then is the rational solution?

[Szabo] An intensive demand exists in the market for the construction and operation of hotels. It is likely that with a conceptual construction permit and with a feasibility study the vacant lot could be sold for a good price. This is so because a vacant lot with a conceptual construction permit and a feasibility study becomes a commodity which substantially reduces the investor's risk.

[Hajnoczy] There is an office building construction boom in Hungary. Just when will this boom break the extremely high rental fees?

[Szabo] I am not optimistic, I do not believe that prices will drop in the near future. But the market is selective. The office building construction fever will not exert a price breaking effect, instead it will sort out office buildings with adverse characteristics. In other words, rental fees will be lower in the peripheries than in the downtown area.

[Hajnoczy] Aside from hotels and offices, is there a segment of the market which is presently regarded as good business?

[Szabo] One may find several downtown cooperative and enterprise plant locations which are there only because real property was allocated in that area during the 1950's. New commercial banks did not have downtown offices a few years ago, while on Martinelli Square you could find the offices of a paint factory. I could go on and on giving such examples. LIMES has been involved in several transactions in the course of which we "moved" cooperatives to the outer districts of Budapest. This represented big business to the lessors or owners of downtown real estate because in general they used a fraction of the proceeds to purchase more modern plants in the suburbs, and they were able to do so.

But even this movements slowed down, because the bulk of the transactions was characterized by the sale of leasing rights. Although leasing rights could be bought and sold until 1986, the rules provided by law were ambiguous. It turned out that in the course of modernizing the banking system that leasing rights, which exchanged hands for several hundred millions of forints could not be included in balance sheets. And at the end of the year, it turned out that the buyer had a shortage. A legal provision was created according to which leasing rights constituted intangible pecuniary value which had to be accounted for in a manner similar to computer software. Then, during the Nemeth government it turned out that part of the enterprises did not go bankrupt solely because they acquired huge sums of money by selling leasing rights. According to the Dodonian solution, leasing rights could not be sold at the time, but councils were obligated to accept them, if they were returned. Not free of charge, but so that the profits enured to the council. However, this system did not work. By now the councils, or rather the autonomous local governments are not obligated to accept returned leasing rights, but they retained a paragraph from the coherent system of legal provisions, one that states that if the leasing right changes hands, the local government may ask money for the new assignment of the lease. And it certainly does! If the leasing rights cost let's say, 40,000 forints per square meter, the local government will ask for the same amount.

[Hajnoczy] In the end this is kind of a fair business consideration....

[Szabo] Not entirely. I recognize a concern in the fact that during the past three years a number of firms purchased leasing rights. And these are treated the same way as those who received such leasing rights decades ago, free of charge. Local governments will uniformly hold out their hands for payments if anyone wants to sell. Actually, the local government performs a covert nationalization of property which was sold in recent years by a state enterprise.

[Hajnoczy] Local governments struggle with a certain identity crisis, they do not know whether to manage or to enterprise. But are they aware of what they have, what resources there are to be managed?

[Szabo] Characteristically, local governments endeavor to draw everything under their own jurisdiction. This includes the property of IKV's [Real Estate Managing Enterprises], the bequest left behind by former councils, and even the lots under state buildings. It raises concern that these assets transferred to the ownership of local governments in bulk form, without organic development might function later on as a time bomb. This property cannot be operated without appropriate competence and staff.

Not to mention the administrative rules. If an entrepreneur buys today for several hundred millions [of forints] the leasing rights to a shop, he would not be permitted to change his profile within five years, nevertheless the local government would raise the leasing fee within a short period of time. In a market economy a business can change its profile every month if it wants to. If electronics are a great hit today, every third shop on the street will sell electronic equipment. But the moment profits fall below the average, the owner will look around and change his profile. This is what the market means. Compared to this, in Hungary, local governments have a duty to provide.

[Hajnoczy] From what I have heard thus far, it increasingly seems to me that for the time being there is no real estate market, and that indications are that there will be no real estate market for a while.

[Szabo] A year or a year and a half ago we thought that the seeds of the economy hold a market economy and that they point forward. By now this is out of question.

[Hajnoczy] The Chamber of Hungarian Real Estate Salesmen was formed recently at your initiative. What need was there for this organization—primarily an interest group?

[Szabo] The Chamber of Hungarian Real Estate Salesmen is by no means the peak organization of a joint business venture. This profession dreamed its Sleeping Beauty dream for 40 years, and it not only must be awakened, but it also must be made accepted. The other aspect of the matter is that a number of legal provisions that arise when these laws are applied. For example, the land law must be applied in different ways relative to producer cooperatives and to the privatization of the New York Palace.

We would like to achieve a situation in which we would have an opportunity to at least comment on legislative proposals and provisions affecting real estate salesmen. And last but not least, we must also resolve the issue of continuing professional training. Unfortunately, there are many tricksters in this trade, incompetent people. The chamber has already established for example an ethics committee. And then, pursuant to a legal provision promulgated by the Ministry of the Interior, brokering real estate will be tied to a professional examination beginning on 1 January 1992. Such an exam can be taken only at one place at the moment—for 25,000

forints. The Chamber is not authorized to administer such exams. We would also like to change this situation, because we feel that we are competent in this business.

Mortgage Banking System Missing

*91CH0684C Budapest FIGYELO in Hungarian
30 May 91 p 29*

[Article by H. A.: "Mortgage Loans System—Why Doesn't it Work?"]

[Text] Before the war, mortgages represented two thirds of the securities sold on the Budapest Securities Exchange. This type of security is not at all fashionable these days, just as the functioning of the institution of mortgage loans is very limited.

This type of lending has been unfairly but necessarily forgotten during the past four decades. Real estate professionals do not exaggerate when they claim that revival of the mortgage banking system could serve as the engine that sets into motion the Hungarian real estate market. The conditional tense used in their statement is no coincidence, because all signs indicate that this type of lending together with the related securities continues to remain an "orphan."

There are no signs of emerging mortgage institutions, nor are there indications that one could purchase real estate with 70 to 80-percent long-term bank financing. This is even more so because administrative rules prevent this kind of lending. For example, the maximum limit of loans to be granted for investment purposes is twice the amount of the borrower's assets. The possibility of obtaining bank guaranties for investment purposes is also restricted.

Until recently there was no real need for granting mortgage loans, because real estate has not been sold for decades. Thus, it comes as no surprise that related legal provisions have spontaneously become ambiguous, incomplete and in certain places contradictory. Everyday practice and the term "mortgage" is likely to remind the average citizen of a situation that followed the exchange of apartments, in which the Land Office entered on documents evidencing real property ownership a prohibition to sell such property to the extent the various loans have encumbered such property. But this has hardly anything to do with the classic institution of mortgage loans, primarily because no securities were issued in the framework of such transactions.

In the aftermath of the war several earlier laws contained in the Civil Code of Laws [PTK] were voided. For this reason, mortgages have no place in today's legal framework. The PTK recognizes only the legal concept of liens, but not the related structure. This manifests itself in part in the fact that the kinds of notations the Land Office may enter on documents concerning the sale or encumbrance of real property are restricted, in most instances such notations are entered when real estate is bought or sold.

Issuing mortgage deeds presents the second technical problem. A number of specific securities were named in the securities law, but these do not include mortgage deeds. In other words, no legal provisions indicate how to manage the proceeds that flow from the issuance of a mortgage deed, i.e., the mortgage loan. Prior to 1945, the amount shown on mortgage deeds could not exceed the value of mortgage loans granted.

In developed market economies most mortgage loans are granted by specialized, independent institutions. The reason for this is that mortgage loans constitute long term transactions.

Enactment of the banking law is not expected to produce a change in Hungarian practice, because the related legislative proposal does not even make a reference to mortgage loans. And the practice of long-term lending is slowly "forgotten" by the banks. The matter of ownership will be settled sooner or later; in the wake of privatization, indemnification and the law on cooperatives there will be a large number of real property owners in the Hungarian economy.

According to the legislative proposal on bankruptcy mortgaged real property will not be used exclusively to satisfy the mortgage holder's claim. Mortgages would be thrown into the "big hat," and all creditors would share the proceeds of a bankruptcy sale. Before paying to the mortgage holder they would settle amounts owed to the state and to employees, for example. It is not hard to predict that the institution of mortgage loans will not function unless a change is made in this sequence of priorities.

Legal guarantees are needed if mortgage institutions emerge at all in the near future among Hungarian financial institution. Guarantees to the effect that creditors are assured of their ability to recover the amounts committed by mortgages. In practice this means the ability of the creditor to recover the funds loaned if the owner goes bankrupt.

Those who claim that ownership conditions must be settled before anything else are also correct. And those who assert that appropriate legal provisions could not guaranty the successful functioning of mortgage loans are not mistaken either. This is the case in part because mortgages do not constitute liquid resources. On the other hand, these are inflationary times, and there are questions about the kinds of enterprises that could produce enough money to pay a 40 percent, or even a 30-percent interest. Individual and institutional investors have an ability to make choices when buying securities, and a possible mortgage deed could not be sold if it held out the promise of a lower than average return.

In summary, many things are missing for the time being for this forgotten type of loan to regain its old significance in a renewed form.

Uniform Data Bank Missing*91CH0684D Budapest FIGYELO in Hungarian
30 May 91 p 29*

[Unattributed article: "Uniform Data Bank"]

[Text] Until recently neither state institutions nor private firms were interested in systematically observing the real estate market. As a result of this there is no reliable, comprehensive information system at the moment to indicate the size, composition and above all, the prices involved involved in real estate transactions. Although the Office of Dues maintains its own information system, its records are not public due to provisions contained in tax laws and in the privacy law.

At the moment advertisements appearing in newspapers are the most reliable sources of information. Large real estate agencies have of course established their own data banks. Some of them contain 10-15 percent of data pertaining to all real estate transactions. In addition to these, a complete information system would be needed, and the feasibility of having one has recently been analyzed jointly by Urban Research Ltd. and by the American Metropolitan Research Institute.

The study found that no information system could be established on the basis of data collected by the Dues Office. Data gathered by that office is delayed, and only partial information can be obtained from such data regarding the size and composition of demand. The need could be satisfied by data provided by real estate agents concerning both completed transactions as well as the volume and structure of supply and demand.

Whether such a data base will exist remains to be seen, because those involved in the real estate market are not uniformly interested in having such a data base. Presumably, a public data base could deteriorate the situational advantage of large agencies, which flows from their already established data bases. In general, a public data base would provide a more equal starting position for smaller agencies.

Banks and financial institution also have a potential interest in the systematic observation of real estate prices. Once mortgage banking practices are pursued the need for up to date information will also increase. Autonomous local governments taking possession of their respective properties would also be interested in establishing a system like this relative to local taxation, and in part, in conjunction with the establishment of housing rental fees based on the market value of real estate. But the development of a uniform information system is conceivable only after the clarification of various legal and financial issues.

It is not known how the data protection law now being prepared will treat information concerning real property transactions, which part of the data it will classify as public, alternatively as private information.

And as far as the financial issues are concerned, one cannot tell who and to what extent will agree to provide financing.

Code of Ethics*91CH0684E Budapest FIGYELO in Hungarian
30 May 91 p 31*

[Article by Janos Pesta: "Code of Ethics Being Prepared"]

[Excerpts] At IKEBE's initiative the drafting of a code of ethics has begun. The intent of this code is to provide guidance to members of the association concerning business conduct, but in addition, an ethical code would also indirectly increase the prestige of the profession.

The National Association of Realtors, the national association concerned with real estate sales in the United States, provides help in the drafting of the code of ethics. In a manner similar to other legal provisions governing market competition, the ethical code would not replace specific rules contained in contracts, or in given instances the contractual or legal provisions governing real estate brokerage, appraisal, etc. consignments. The code would merely facilitate the enforcement of all these provisions through rules and recommendations which encourage the real estate profession to satisfy the buyers' needs.

Aside from the fact that the code of ethics will not constitute law, i.e., it will apply only to the members of the association, it also differs from the the Hungarian competition law which went into effect this year in the sense that the code contains a number of positive, prescriptive requirements.

What will be the scope of the future IKEBE code of ethics? It will govern the relationship of real estate agents with the public, the state and local governments; the relationship between agents, with their principals and with the other contracting party.

In the context of the activities of real estate agents, it is of primary concern that agents represent the interests of their principals, even to the detriment of the agents' own interests. The confidential nature of real estate transactions demands the observance of this basic rule. At the same time, however, real estate agents must also manifest decent business conduct with respect to the other contracting party.

IKEBE intends to introduce the so-called system of "listing" primarily among its own members [passage omitted] on the basis of which property owners commit themselves not to commission other agents for the sale of their property for a certain period of time.

This system was known in Hungary prior to 1945, but neither principals nor agents use it today. [passage omitted]

Ethical prescriptions prohibit unauthorized involvement by attorneys. In this respect there is likely to be a difference between the American and the Hungarian systems, because Hungarian legal provisions authorize properly qualified agents to prepare documents involved in real estate transactions. On the other hand, real estate agents are not authorized to perform other legal representation. [passage omitted]

Private Physician's Practice, Plans Detailed

91CH0685C Budapest FIGYELO in Hungarian
9 May 91 p 25

[Interview with physician entrepreneur Dr. Gyula Sandor by Andrea Gallai in Budapest; date not given: "...Whoever Respects His Profession and His Patients May Be a Stockholder in a Hospital"—first two paragraphs are FIGYELO introduction]

[Text] Physicians are perhaps the oldest kind of entrepreneurs. The best of them began their private practice parallel with their hospital work. Accordingly, they have entrepreneurial experience, and as experienced entrepreneurs they also have an opinion concerning opportunities that are available today.

Stunning elegance; snow white marble, sparkling cleanliness; everything is new here and smells good. Whoever steps into the offices of Ginec Ltd. knows that a dream has come true. The dream of a physician, of Dr. Gyula Sandor, who has sufficient respect for his profession and patients to make his services available in an appropriate environment and with state of the art equipment.

[Gallai] How many years did it take for you to accomplish this?

[Sandor] I started my practice 18 years ago. At that time I lived in Sziv Street—I did not even have a separate room for my doctor's office there. As I recall I had a Tauffer wooden bed in one corner. I simply put it on top of the cabinet after finishing an examination. My practice in those days served the purpose of having a quiet place where the telephone did not ring, and from where I did not have to run to the operating room. I was able to shut the door there, and patients were able to tell me about even their most intimate problems. Starting my private practice was not fundamentally based on financial considerations, because patients were able to slip an envelope in my hands even at the hospital where I worked. At my office, however, instead of having slipped money into my hands, I simply stated my examination fees to the patients. The patient paid the amount and I, as a private entrepreneur made aggregate tax payments. Everyone felt better as a result. In those days, I only dreamed about the time I would be able to work under these circumstances, of having a doctor's office like this one.

[Gallai] But we are here now.... To what can you attribute this?

[Sandor] My younger brother lives in the United States, he purchased the necessary instruments. I have everything I need now, including an ultra-sound examiner. We established a joint enterprise to which he contributed these instruments. I purchased a deteriorated little building in the Castle area. I had that house renovated by taking a 2-million-forint bank loan and borrowing 1 million forints from a friend. It helped that my wife, an out and out long-time entrepreneur, also moved here with her existing clothing wholesale business. And of course, everything started out by having a legitimate opportunity to form a joint venture, even though the foreign partner who contributed the capital was a member of the family.

[Gallai] This office is wonderfully equipped, but I know that you would not want to stop at this point.

[Sandor] No, because I cannot perform operations and cannot deliver babies here. In order to do so I need a hospital in the background. Accordingly, I would be pleased to be part of a private hospital, let's say as a stockholder, where I would have an opportunity to operate on my private patients. Moreover, I am so serious about this that I already was able to persuade my younger brother. He would be pleased to join this business now that we have a successful family venture.

[Gallai] Along with your brother, you have also convinced me that you would be able to do that. However, Social Security is a harder nut to crack.

[Sandor] It is obvious that present rules work against any such initiative. Private clinics and private hospitals may be established only on shaky grounds as long as Social Security does not recognize the patients' cost of treatment. And even if some courageous Hungarian entrepreneurs tolerate this situation, foreign investors are forced to adopt a wait and see attitude. The situation would be clear if insurance companies rather than the Social Security system dealt with health insurance, and if they finally determined the number of points a given medical procedure was worth and the number of forints each point was worth based on a point system that has been functioning in any Western country. Patients on the other hand, could buy basic insurance according to their needs, or obtain high level insurance supported by their workplaces. I, as a doctor would submit my bill to the insurance company and they would pay me. It is possible that this situation is more complex in Hungary, but I regard it as simple as this.

Ginec Ltd. has already introduced a point system, and the points also have a forint multiplier. Across the entrance hall there is a clearly visible price list which accurately tells patients what to count on after the visit. No one feels embarrassed after settling the account. They do so with the assistant seated in the reception room, if not with the doctor. In exchange for a 43-percent Social Security contribution, the Social Security system does not contribute a single penny for services performed by private physicians...as of today, that is.

Government Changes, Party Coalitions Forecast*91EP0567A Warsaw ZYCIE WARSZAWY in Polish
10 Jun 91 p 3*

[Article by Jerzy Wysocki: "Power Plays"]

[Text] The government of Jan Krzysztof Bielecki was formed under conditions quite remote from those we know to exist in the Western democratic countries. Over there the ruling party is the one that has the largest base of social support and that has won elections and gained parliamentary majority. Such a government has every premise for exercising its functions effectively. The cabinet of Prime Minister Bielecki could not count on such a comfortable situation. Its only real anchor is the president, who has, following the unsuccessful mission of attorney Jan Olszewski of the Center Accord party, given a chance to young politicians from the then relatively unknown Liberal-Democratic Congress (KLD).

Allies in the Opposition

This solution, the only possible one perhaps, harbors a grave risk. The honeymoon of the Liberal-Democratic administration is not over yet, but the KLD's allies from the period of presidential elections have already begun to distance themselves from it. "The acceleration policy [policy of removing the communist nomenklatura from posts of influence] is not being pursued, and the government is not a turning-point government," declared the leader of the Center Accord, Jarosław Kaczyński, and the political council of his party has threatened to withdraw both its ministers (Jerzy Eysymontt and Adam Glapiński) from Bielecki's cabinet. Likewise, the Christian-National Union, although its chairman, Prof. Wiesław Chrzanowski, is a member of the Bielecki administration, has declared that it "does not bear political responsibility for the direction of the administration's policy."

Somewhat later, Solidarity, too, has withdrawn its protective umbrella over the government, and some of its activists began to criticize not only the government's policies but also even the basic direction of social and economic changes being pursued. As for any support from the forces of the old system and the demagogic-populist formation, the government does not count even on it.

The one pleasant surprise to the government turned out to be the position of [Mazowiecki's] Democratic Union. "Paradoxical as it may seem, the Democratic Union, although it has been dislodged into the opposition, is defending the program of the present administration while the Center Accord, from which that administration originates, is nowadays attacking it," said Tadeusz Mazowiecki, suggesting at the same time that he views the Liberal-Democratic Congress as an ally in the coming parliamentary elections. However, this approach is not representative of the Democratic Union as a whole, because one faction of it is moving in the direction of the social democrats.

As for the relations between the administration and the contract Sejm [dominated by ex-communist parties as based on roundtable accords], they were explicitly characterized by Prime Minister Bielecki as follows: "Today the administration and the parliament are not working in unison on the reforms. This is complicating the accomplishment of the objectives for whose sake we were appointed."

In such a political situation no government can be expected to await calmly the natural end of its term of office. The Bielecki administration realized this during the "hot week" (conference at the Belweder, Solidarity strikes and protest actions, PSL [Polish Peasant Party] Deputy Soska's motion of no confidence in the government) which, as intended by several politicians, was to lead to a cabinet crisis. But just then it turned out that the administration can still count on the support of the president, and the Sejm is incapable of recalling the Council of Ministers.

In Face of Perils

Despite the rising criticisms of the administration, the view that "the war at the top" is not healthy to any of the post-Solidarity groupings has been increasingly gaining currency. Some of these groupings were even able to observe that by criticizing the government they did not at all improve their electoral prospects. In face of the offensive by the post-communist forces and the formations "not too responsible" for the direction of the reforms, there has arisen—in the opinion of many publicists and politicians—the need to explore what unites rather than what divides the members of the former democratic opposition. This was most strikingly expressed by Jan Nowak-Jeziorański: "An electoral coalition of all the forces originating from Solidarity is needed.... The patronage over the pact for Poland should be assumed by Lech Walesa," he declared on television.

It may be that such a solution is close to the intentions of the president, who, once he had assumed office, desisted from establishing a presidential party and is attempting to distance himself equally from all the post-Solidarity groupings regardless of the attitude they had displayed toward his presidential aspirations before the November 1990 elections. It is not unlikely either that, in order to rescue the reforms from bogging down, the president will want to broaden the administration by inviting representatives of other parties to take part in it even before the coming parliamentary elections.

A New Deal

For the time being the prospects for such a broad electoral and government coalition are still foggy. Even now, too many resentments divide the Center Accord and the Democratic Union in particular for the idea of "the courier from Warsaw" to become reality. Similarly, not everyone believes that this is really required by the

present situation. For the time being some smaller coalition is more likely, either between the ruling Liberal-Democratic Congress and the Center Accord or with the Democratic Union. Both these latter groupings at least perceive such a possibility. Now it will be up to the prime minister and his party to decide whether and with which party, Center Accord or Democratic Union, to conclude an alliance. Even now Center Accord has put forward an explicit offer: It is ready to bring into the government several of its ministers. That would mean a return to the close coalition between Center Accord and the Liberal-Democratic Congress during the presidential campaign. The problem is that the offer by Center Accord, as presented in GAZETA WYBORCZA by Stanislaw Rojak, is linked to the parliamentary elections scheduled for this coming fall. It may be that Center Accord wants to produce the impression that a rejection of its offer can only result in the disintegration of the Polish state and even imperil its sovereignty. That would be thus "an offer that cannot be refused." But Prime Minister Bielecki has the right to feel apprehensive about whether Center Accord is genuinely interested in supporting the government and its policy, or whether it wants to take control of the government in order to pursue its own policy. The apprehensions may be all the greater considering that for the time being there is no information on precisely what notions Center Accord is proposing in order to strengthen the Liberal-Democratic administration.

The effects of a government coalition between the Liberal-Democratic Congress and the Democratic Union, on the other hand, academic as its prospects may seem at present, would be easier to predict. Tadeusz Mazowiecki's associates have already had occasion to act in the role of ministers. Moreover, many commentators believe that the Bielecki administration is a continuator of the basic political directions of the previous [Mazowiecki] administration. Also in favor of the Democratic Union may be its great and growing popularity (according to recent CBOS [Public Opinion Research Center] polls, the Democratic Union is supported by 19 percent of the electorate) while the popularity of Center Accord has declined markedly (by four percent).

The power plays behind the scene and the propaganda trumpetings do not in the least signify that any restructuring of the administration has actually been accomplished. Four months probably remain until the parliamentary elections. Any personnel changes, even the most felicitous ones, bear fruit only after some time. The political parties that have now concluded that it is worthwhile to support the Bielecki administration can do so without any detriment to their existing programs.

Solidarity Prognosis for Coming Elections

91EP0564A Warsaw TYGODNIK SOLIDARNOSC
in Polish No 23, 7 Jun 91 p 3

[Editorial by Jozef Orzel: "The End of 'Our Rule'"]

[Text] We started out well. Whatever was there to win in the parliament two years ago, we won. We did not have a majority in the Sejm, but the prime minister was ours. The rejoicing was common...and premature. Little happened, and the changes at the top were limited and, at the bottom, none. And to exaggerate just a little, that is the way things have remained (the rulers will be outraged by the second part of this sentence and the ruled by the first). Why?

A majority of the chronic malcontents complain that this is because of the concessions we had made at the roundtable—the agreement to exchange political rule for economic rule by the communist nomenklatura (which in its turn has opened the road back to political rule). That has been the principal reason, irrespective of whether we could have refused to make these concessions. But as a corollary there is the second reason: complete ignorance about what is actually happening in this country, and especially in the economy and at the ministries of internal affairs and defense. Both matters are interconnected. On the one hand, the rulers are hiding as much as they can from the public, because they do not want to admit that the ex-communist camp still wields tremendous power—and that that power keeps growing. On the other, the rulers have not yielded the mass media to social control, to the opposition parties. And the reason why they have not done so is linked to the principal reason—the agreement with the nomenklatura.

A syndrome of growing lethargy and discontent that is inimical to democracy has arisen. The common thinking is that it is not worth doing anything, because nothing can be done. If a person has a novel idea, the new officialdom will not help and the old one will obstruct. Thus, the people are fed up with any government and with all the parties in the current political alignment. To them politics is a struggle for being the first at the trough. And if somebody completely new appears on the political scene, it turns out that the heretofore silent part of the society wants something, no matter what, so long as it is something different. That was how Tyminski had gained an electorate, and that is how it may once again turn out in the elections, and perhaps also in the parliament.

The popular notion is that the country is governed by an alliance of Solidarity and ex-communists. The people no longer identify themselves with Solidarity. Is that its fault? It was and is giving up its best and brightest so they can rule the country, and thereupon it is immediately starting to quarrel with them. For a long time it has not displayed or exerted pressure on the government, whether to defend worker interests or national interests. It is only now that Solidarity activists are regretting that they had not at once pressured the Mazowiecki administration, only now that the Center Accord party has been established and the idea of acceleration put forward and supported by a majority of Solidarity's supporters.

But that also has led to a schism within Solidarity and, along with it, a totally different schism within the society.

The Solidarity camp has split into accelerators and continuators. The society, on its part, has split into a minority declaring itself on either side and a majority that is no longer interested in issues and merely trying to survive until the next monthly payday. The majority has become apolitical, and Solidarity is paying for it. But the rest of us will pay for it, too. Recently, when Solidarity awakened to make a protest, that apolitical majority did not support it, grumbling that its standards of living keep declining as it keeps on working. The majority no longer understand that Solidarity acted in its behalf. The majority does not believe either that the government is acting in its behalf. Therefore it proceeds apathetically on the road to capitalism, knowing that it will be a post-Red kind of capitalism [meaning that the former communist elite are becoming rich], since it sees no alternative and has reconciled itself to what is to be.

The proactive part of the society, the activists of Solidarity, and the opposition parties, are in a difficult situation. They do not know how to provide a simple and realistic alternative to the economic policy of the government. Yet that is nowadays the only issue that can excite the people, or at least stir them enough to prompt them to vote. A definite majority know that things are bad and a change is needed, but that is not enough to prompt them to vote in favor of some program.

But do Solidarity, the Citizens Committees, and the opposition parties have a chance to develop, discuss, and present an alternative economic program? The government and the parliament took care to keep the opposition parties on the periphery. The mass media are in the hands of the "continuators." Publicity about all kinds of scandals leads nowhere. The government either ignores articles in *TYGODNIK SOLIDARNOSC* and interpellations by Sejm deputies or politely advises that an investigation is in progress. Public opinion is nonexistent because its influence on the authorities is nonexistent. Such an influence is not in the interest of the rulers because then they would have to admit that they reconciled themselves to the building of capitalism by the ex-communist nomenklatura. But soon a time will come when that can be declared loudly, or when it can be just as loudly declared that the ex-communist parties are by now decent and democratic and entitled to a substantial place in the parliament—and there will be no vocal protests.

But not yet. Two camps will evolve during the parliamentary campaign. The first, progovernment, will argue that we are on the right road, that we must work harder for less in order for better times to come, that we already have democracy, and that the free market will come soon now. The second will argue that things are bad through the fault of the government and that the authorities are not protecting national interests, meaning the interests of the social groups that the politicians want to represent.

But the majority will believe neither camp; it will not believe that either camp wants to and can improve the situation. The first camp will comprise the SdRP [Social Democracy of the Polish Republic], the PUS [Polish Social-Democratic Union], the Democratic Union, the Liberal-Democratic Congress, and the Social Democrats, and the second, Center Accord and other Christian parties, Solidarity, a majority of Citizens Committees, the peasant parties, and...Tyminski's Party X. But the division within the society will be of a different kind—into those who still believe someone and those who no longer trust any candidate. So that one-half of the voters may elect to stay home.

Unless people awaken now, unless they understand that the coming parliamentary elections are their last chance to influence the nature of this country and their own fate, Poland will continue on the road it first took two years ago. There will be no communism, but there will be no democracy either. There will be capitalism, but without equality of opportunity. The country will be ruled by a small group, elected democratically but lacking active popular support. The elemental struggle for power in the economy will be continued, a struggle that is being and will be won by the old (and new) nomenklatura. And that shall be the end of "our" rule.

Presidential Chancellery Structure Outlined

AU0807073391 Warsaw RZECZPOSPOLITA in Polish 3 Jul 91 p 3

[Article by Kazimierz Groblewski: "The Presidential Chancellery—What It Is"]

[Text] Under Lech Walesa's Presidency, the Belvedere Palace has acquired a new label. It is no longer just "the place," it is now also referred to as the "presidential office."

The palace itself contains a small part of the Presidential Chancellery, i.e. the Press Office, headed by Andrzej Drzycimski; the President's Cabinet, headed by Mieczyslaw Wachowski, who is also the president's personal secretary; and Andrzej Kozakiewicz, deputy director of the Cabinet and economic secretary. Along Ujazdowski Boulevard is to be found Lech Kaczynski, minister of state for national security; Jerzy Milewski, secretary of state and chief of the National Security Council within the National Defense Committee; and Maciej Zalewski, secretary to the National Defense Committee. The President's Cabinet, Press Office, and minister of state for national security report not to the chief of the Presidential Chancellery, but directly to the president.

President Lech Walesa's Chancellery still operates according to the statute which President Wojciech Jaruzelski imparted to his Chancellery. Lech Walesa has merely altered point one of the statute; he has expanded the list of people "through whom the head of the Chancellery runs the Chancellery." To the people listed in Jaruzelski's Chancellery statute—deputy chiefs of the Chancellery, presidential advisers, cabinet directors, and

heads of teams—Walesa has added the first deputy chief of the Chancellery, secretaries of state, undersecretaries of state, and directors general. By means of this change alone, Lech Walesa has opened the way to a reorganization of the Chancellery, because the previous president left the following point in the statute: "I authorize the head of the Chancellery to create, combine, abolish, and transform Chancellery cabinets and units."

In December 1990, when it was still unknown what function the president would give Jaroslaw Kaczynski, the presidential press spokesman told inquisitive journalists that it would be a function "with enviable powers."

One month after becoming head of the Chancellery, Jaroslaw Kaczynski issued an organizational code for the Chancellery. Article 32.2 of this code says, "The president's executive body is the Presidential Chancellery. The president lays down a statute for the Chancellery and appoints and dismisses its chief"; whereas Article 33.1 says, "The president may appoint and dismiss ministers of state, who are authorized to implement their assigned duties on the president's behalf. The president determines the extent to which they are authorized to do so."

Lech Walesa's constitutional powers are the same as Jaruzelski's were, in other words largely the same as those of the former State Council. The Presidential Chancellery has inherited some of the State Council's structures. Its headquarters are at 10 Wiejska Street.

Some of the structures in the Chancellery report directly to the president. These are: the Political Service Unit, headed by Undersecretary of State Arkadiusz Rybicki; Undersecretary of State Krzysztof Z. Pusz; Jerzy Grohman, plenipotentiary for privatization; and Wojciech Wlodarczyk, secretary of the Advisory Committee. But the International Office, headed by Secretary of State Janusz Ziolkowski; the Economic-Social and Rural Office, headed by Secretary of State Teresa Liszcz; and the Office for Local Government and Local Affairs, headed by Secretary of State Grzegorz Grzelak, report to the head of the Chancellery.

Antoni Pietkiewicz, first deputy head of the Chancellery, is in charge of the following units: personnel, investigations and complaints, law and organization, amnesties, and control and intervention. Some of the activities of the Control and Intervention Unit, headed by Zdzislaw Uniszewski, have brought upon it accusations of "interfering in matters that do not concern it."

The two remaining deputy heads of the Chancellery are Jerzy Breitkopf and Slawomir Siwek. Siwek controls the Legal Office, headed by Andrzej Gliniecki; the Office of Analysis, headed by Ludwik Dorn; and Office of Cooperation with the Government, Parliament, Trade Unions, and Political Organizations. The Legal Office is responsible for drafting presidential initiatives. Jerzy Breitkopf is in charge of the secretariats of the State Election Commission and National Judicial Council, the

Awards and Finance Unit, and the administrative-technical infrastructure. The smallest Chancellery units are the Unit for the Implementation of Tasks and Unit for Cooperation with Artistic Milieus.

The Chancellery has 207 full-time employees, including the president. This number includes the few people employed in the secretariats of the State Election Commission and National Judicial Council, as well as those in the Social Bureau of the Committee for the Protection of the Cultural Heritage of Krakow, these bodies being affiliated to the Chancellery.

When Lech Walesa accuses workers of failing to "clean up" their enterprises and uses his Chancellery as an example to be followed, in which he claims "there is only one person left out of the old employees," he probably means the group of Chancellery "directors," of whom Jerzy Breitkopf is indeed the only one left out of the old guard. But about two-thirds of the rank-and-file were employed in the previous Chancellery.

Krzysztof Wasiek, director of Jaruzelski's Presidential Cabinet, wrote in *POLITYKA* in November 1990 that the Chancellery should be apolitical in the future. "Its employees should be totally oblivious to the existence of any parties," he wrote. "Their sole concern should be to take care of the president's business properly."

Ever since the beginning of his Presidency and his plan to create a Political Council, Lech Walesa has brought upon the Chancellery a shower of accusations about trying to form a supergovernment and superparliament. Today, each Belvedere initiative is examined painstakingly. The Parliamentary Club of the Democratic Union even appointed a special unit in January which was meant to assess the work of the Presidential Chancellery to see if it conforms to the Constitution, and present its findings to the club.

It seems that not only is the Belvedere considered to be omnipotent, it also considers itself to be omnipotent. But sometimes it is incompetent, and sometimes it is weak. It is criticized more often than any other body of authority. The things that have been written about it in recent times are almost entirely negative.

Democratic Right Faction Holds Initial Meeting

AU0307144591 Warsaw RZECZPOSPOLITA in Polish 1 Jul 91 p 2

[Article by Z.S.: "The State's Authority in Danger"]

[Text] The Faction of the Democratic Right [FPD, formerly the Forum of the Democratic Right, which adopted its new name on 12 May] held its first meeting in Warsaw on 30 June. Aleksander Hall was elected chairman. A Political Council and Programmatic Council were also appointed.

"Of course we are allied to the Democratic Union," Aleksander Hall told reporters present at the meeting.

Asked what the aim of his organization was, Hall said that the FPD's members consider democratic capitalism to be the only chance for Poland, and are of the opinion that building democratic capitalism and a democratic state is impossible without referring to Christian traditions.

In an adopted declaration, the FPD expressed concern over everything currently taking place on our political stage. "During the formation of a democratic political system and market economy, the state's authority is an extraordinary asset that cannot be jeopardized. This asset stems from the prestige of legislative and executive bodies, and a correct distribution of powers and tasks among them," the declaration says.

The declaration also says that "the Polish president's involvement in the upcoming parliamentary elections would reduce the chance of establishing a rational system based on a triple structure of authority and on equilibrium between the president and parliament." The FPD says the president should be above all party divisions, and guarantee stability and cohesion in the activity of state bodies.

Importance of Small, Medium Enterprises Stressed

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[Article by Stefan Marciniak: "What Kind of Restructuring?"]

[Text] The word "restructuring" has been denigrated recently in all possible ways by journalists, economic politicians, and ordinary mortals disturbed about their fate. The latter, with good reason, associate the word with the steadily growing threat of unemployment. The economic politicians understand it to mean mainly, if not exclusively, changes in the structure of ownership. However, in what is called the "past period," some economists, as well as readers of the press, understood this to mean mostly changes in the structure of material production. Both the first and second interpretations are too one-sided to reflect the essence and range of the restructuring process in the economy and in society.

If we want to correctly describe the essence and range of restructuring, i.e., the changes in the country's economic structure (because in this article we will talk only about the economy, omitting such problems as improvement in the management of public finances and the external conditions of management), we must treat this problem very broadly. But then the term "structural changes" covers changes in the structure of ownership and the organization of the economy, changes in the structure of material production (sector, branch, subbranch, assortment, and quality), changes in the structure of employment and qualifications, changes in the structure of applied technologies, and so forth. This last wording

defines the range of the structural changes. It is called restructuring in the *largo* [very slow tempo] sense, i.e., very broad.

The processes of marketization and privatization are an essential condition for the development of our national economy. They inevitably lead to changes in the structure of ownership, organization, employment, and qualifications. However, changes in the structure of material production and applied technologies do not produce, in an essential and independent way, this development. Many social and economic problems arise in connection with this. At this point I would like to say a few words about two of these problems that are of vital importance to the future of the Polish economy, i.e., unemployment and the role of small enterprises in limiting it.

It has been said recently that the main reason for the drop in production in Poland is the bad structure of our economy. Is this really so? We can, with substantiation, say that bad structure, understood in the broad sense, is the cause of the unsatisfactory efficiency of management, that production and supply are inadequate for the structure of material demand, that it inhibits demand for engineering changes, that it causes excessive (unnecessary) unemployment, and, finally, that it is the cause of the slow pace of development of industry and the entire national economy.

However, there are other reasons for the current drop in industrial production, construction, crafts, and other nonagricultural branches of the national economy. Most generally, these are reasons connected with the dogmatically conceived monetary policy, applied in Polish practice since 1 January 1990 (for example, the rigid currency exchange rate, wage restrictions, the high interest rate on credit, and so forth). I will not discuss these problems in detail here; a complete list of the negative features and consequences of this policy can be found in the written transcript of the Sejm debate (May 1991).

On the other hand, the structural aspects of how to get out of the existing impasse have not been discussed sufficiently. I also believe that a large number of the necessary changes in the economic policy now being implemented must relate to a move from a policy which the West calls "demand-side economics" to a policy of "supply-side economics." The situation that arose in Poland has many characteristics of the phenomenon that appeared in the West in the 1970's, or stagflation, i.e., high unemployment and high inflation. Already, at the beginning of 1991, unemployment totaled over seven percent of the work force (except for agriculture), and at the end of this year it is supposed to be approximately 17 percent.

The question arises whether the assumptions of supply policy (a balanced budget, reduction in state expenditures, tax reductions, less state interference in economic matters, and a reduction of the excess growth of the amount of money in circulation) can bring about the desired results in Poland. Such a question is particularly

justified because some of these recommendations are being applied in Poland, and yet inflation is quite high (prices in March 1991 were 25.7 percent higher than in December 1990¹), production capacity in state enterprises is greatly underutilized, and unemployment is rising. Nevertheless, I believe that if we are to get out of the existing situation, we must go to a supply-side policy, because it is also a restructuring policy, while demand policy is a structural and is directed at an increase in the utilization of the existing production capacity. How can supply policy contribute to the development of production? Its main argument is the statement: The range of freedom granted to the enterprises must be enlarged, so that the dynamics of the market will cause the desired structural changes. This requires, in Poland, implementation of the continually difficult money policy and also revision of the policy of secondary division of income and the selectively larger economic role of the state. Among other things, the state should become more active in industry and bring about a reduction of prime costs by slowing down the growth of wages and ensuring cheaper energy, raw materials, and other supplies, etc. The problem is, however, that production costs, including wages, are also a factor that determines demand. We know, in turn, that a drop in demand also has the effect of raising costs because unused production capacity increases the unit costs of production and storage. A reduction in costs obtained by this supply policy may be canceled out by a rise in costs and a drop in demand.

But it should be said that demand policy continues to have certain advantages. It can fulfill its role in those cases where utilization of production capacity is involved, and by so doing, create a favorable climate for economic development. At the same time, supply policy is also important because it facilitates structural changes and hastens them, and also because it improves conditions of supply where the market mechanism requires help in the form of better profitability terms for private enterprises. Following the example of the American Nobel Prize-winner Lawrence Klein, we can say that the optimal solution is "...interplay in the structural change policy and a well-organized demand policy."²

What should be the direction of restructuring in the Poland of 1991? Only a team of competent experts could prepare an answer to such a question. It would be easier, however, to indicate what should be done to stimulate industrial production and neutralize (reduce) the negative effects of mass unemployment. Aside from an obvious revision of the assumptions of monetary policy being implemented in Poland, action in two directions is essential: First, the privatization of small and medium industrial enterprises should be accelerated, including the so-called parent-agency type of privatization; second, the support of the state for research and development (R&D) in small and medium enterprises is essential.

Why is this particular course of restructuring helpful to the development of the desired restructuring, while at the same time, it can be an antidote to the illness of mass

unemployment? First of all, because the ownership and organizational structure of our industry is bad; it is one-sided (a monopoly of state ownership and large public-sector units), which makes for inefficient management. Second, the small share of small (up to 200 persons) and medium (201-1,000 persons) enterprises produces all kinds of negative consequences. A separate article would be required to discuss these consequences in detail (inflexibility of adapting production to demand, reluctance to apply innovations, and so forth). Third, the existing branch-subbranch structure is not conducive to growth of competition on the domestic market; therefore, there is no incentive to improve the quality of industrial production.

Altogether, in the group of small and medium industrial enterprises in Poland in 1988 (there are no comparable figures for the later years), 42 percent of those working in industry were employed—16.7 percent in the small, and 25.3 percent in the medium enterprises. This is lower than the employment in this group of enterprises in the FRG, Japan, and Italy.

Poland's transition to a market economy under a parliamentary democracy system requires extensive decentralization in all areas of public life, including the economy. A growth of the role of small and medium enterprises in industry (and other sectors of the economy) can help these processes, and a growth in their role and range of operations will help in the development of competition.

Considerations of a regional nature also favor certain preferences (tax preferences, credit preferences). It is easier for small and medium enterprises to take advantage of local raw materials and a local labor force. It is easier for them to adjust to the utilization and processing of local agricultural surpluses. Development of small and medium firms in regions which are threatened with unemployment should serve to reduce the local unemployment. These types of firms also have the advantage of being able to adjust to new methods and adapt the structure of material production to demand.

But if small and medium enterprises are to be able to fulfill the hopes placed in them, the assistance of the state is essential. I will mention only one form of state assistance—research and development. Statistics have shown that 70 to 90 percent of innovations stem from demand (and only 10 to 30 percent are innovations resulting from scientific and engineering achievements, i.e., they have supply origins). This creates favorable conditions for the application and development of new methods for small and medium enterprises. But credit assistance is necessary (for the purchase of new technologies), tax assistance (a 20-percent exemption from income tax by virtue of the application of new technologies is not enough), and organization and training assistance. The help of the state in this case is essential and profitable. It is essential because small enterprises

cannot compete with large enterprises (1,001 or more persons), e.g., for financial reasons. It is profitable because it may produce conditions conducive to technical progress, which, in addition to competition, is the main factor in restructuring, without which, in turn, improvement in management efficiency in industry and the entire economy is unthinkable.

Footnotes

1. Warsaw RZECZPOSPOLITA (ECONOMY AND LAW supplement), 26 Apr 91.
2. L. R. Klein, *The Economics of Supply and Demand*, Oxford, 1983, p 109.